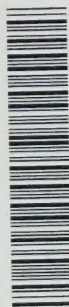


CA 20N

EA 13

H26



3 1761 11652101 4

ENVIRONMENTAL ASSESSMENT BOARD

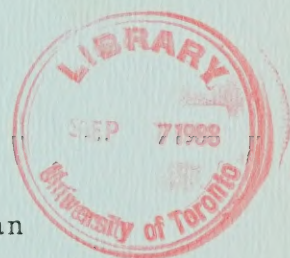
VOLUME: XXXIX

DATE: Friday, August 26th, 1988

BEFORE: M.I. JEFFERY, Q.C., Chairman

E. MARTEL, Member

A. KOVEN, Member



FOR HEARING UPDATES CALL (TOLL-FREE): 1-800-387-8810

EARR
ASSOCIATES &
REPORTING INC.

(416) 482-3277

2300 Yonge St., Suite 709, Toronto, Canada M4P 1E4

CA 20N
EA 13

- H26

EA-87-02

Environmental
Publications



ENVIRONMENTAL ASSESSMENT BOARD

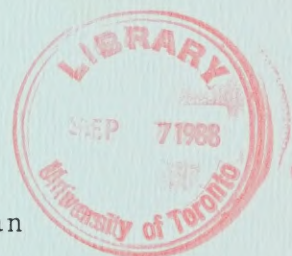
VOLUME: XXXIX

DATE: Friday, August 26th, 1988

BEFORE: M.I. JEFFERY, Q.C., Chairman

E. MARTEL, Member

A. KOVEN, Member



FOR HEARING UPDATES CALL (TOLL-FREE): 1-800-387-8810

EARR
ASSOCIATES &
REPORTING INC.

(416) **482-3277**

2300 Yonge St., Suite 709, Toronto, Canada M4P 1E4

HEARING ON THE PROPOSAL BY THE MINISTRY OF NATURAL
RESOURCES FOR A CLASS ENVIRONMENTAL ASSESSMENT FOR
TIMBER MANAGEMENT ON CROWN LANDS IN ONTARIO

IN THE MATTER of the Environmental
Assessment Act, R.S.O. 1980, c.140;

- and -

IN THE MATTER of the Class Environmental
Assessment for Timber Management on Crown
Lands in Ontario;

- and -


IN THE MATTER of an Order-in-Council
(O.C. 2449/87) authorizing the
Environmental Assessment Board to
administer a funding program, in
connection with the environmental
assessment hearing with respect to the
Timber Management Class
Environmental Assessment, and to
distribute funds to qualified
participants.

Hearing held at the Ramada Prince Arthur
Hotel, 17 North Cumberland St., Thunder
Bay, Ontario, on Friday, August 26th, 1988,
commencing at 8:30 a.m.

VOLUME XXXIX

BEFORE:

MR. MICHAEL I. JEFFERY, Q.C.	Chairman
MR. ELIE MARTEL	Member
MRS. ANNE KOVEN	Member



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116521014>

A P P E A R A N C E S

MR. V. FREIDIN, Q.C.)	MINISTRY OF NATURAL
MS. C. BLASTORAH)	RESOURCES
MS. K. MURPHY)	
MR. B. CAMPBELL)	MINISTRY OF ENVIRONMENT
MS. J. SEABORN)	
MR. R. TUER, Q.C.)	ONTARIO FOREST INDUSTRY
MR. R. COSMAN)	ASSOCIATION and ONTARIO
MS. E. CRONK)	LUMBER MANUFACTURERS'
MR. P.R. CASSIDY)	ASSOCIATION
MR. J. WILLIAMS, Q.C.	ONTARIO FEDERATION OF
	ANGLERS & HUNTERS
MR. D. HUNTER	NISHNAWBE-ASKI NATION
	and WINDIGO TRIBAL COUNCIL
MR. J.F. CASTRILLI)	
MS. M. SWENARCHUK)	FORESTS FOR TOMORROW
MR. R. LINDGREN)	
MR. P. SANFORD)	KIMBERLY-CLARK OF CANADA
MS. L. NICHOLLS)	LIMITED and SPRUCE FALLS
MR. D. WOOD)	POWER & PAPER COMPANY
MR. D. MacDONALD	ONTARIO FEDERATION OF
	LABOUR
MR. R. COTTON	BOISE CASCADE OF CANADA
	LTD.
MR. Y. GERVAIS)	ONTARIO TRAPPERS
MR. R. BARNES)	ASSOCIATION
MR. R. EDWARDS)	NORTHERN ONTARIO TOURIST
MR. B. McKERCHER)	OUTFITTERS ASSOCIATION
MR. L. GREENSPOON)	NORTHWATCH
MS. B. LLOYD)	

APPEARANCES: (Cont'd)

MR. J.W. ERICKSON, Q.C.)	RED LAKE-EAR FALLS JOINT
MR. B. BABCOCK)	MUNICIPAL COMMITTEE
MR. D. SCOTT)	NORTHWESTERN ONTARIO
MR. J.S. TAYLOR)	ASSOCIATED CHAMBERS OF COMMERCE
MR. J.W. HARBELL)	GREAT LAKES FOREST
MR. S.M. MAKUCH)	PRODUCTS
MR. J. EBBS	ONTARIO PROFESSIONAL FORESTERS ASSOCIATION
MR. D. KING	VENTURE TOURISM ASSOCIATION OF ONTARIO
MR. D. COLBORNE	GRAND COUNCIL TREATY #3
MR. R. REILLY	ONTARIO METIS & ABORIGINAL ASSOCIATION
MR. H. GRAHAM	CANADIAN INSTITUTE OF FORESTRY (CENTRAL ONTARIO SECTION)
MR. G.J. KINLIN	DEPARTMENT OF JUSTICE
MR. S.J. STEPINAC	MINISTRY OF NORTHERN DEVELOPMENT & MINES
MR. M. COATES	ONTARIO FORESTRY ASSOCIATION
MR. P. ODORIZZI	BEARDMORE-LAKE NIPIGON WATCHDOG SOCIETY
MR. R.L. AXFORD	CANADIAN ASSOCIATION OF SINGLE INDUSTRY TOWNS
MR. M.O. EDWARDS	FORT FRANCES CHAMBER OF COMMERCE
MR. P.D. McCUTCHEON	GEORGE NIXON

(iii)

APPEARANCES: (Cont'd)

MR. C. BRUNETTA

NORTHWESTERN ONTARIO
TOURISM ASSOCIATION

I N D E X O F P R O C E E D I N G S

<u>Witness:</u>	<u>Page No.</u>
<u>PETER R. ANDERSEN,</u> <u>JOHN M. DUNCANSON,</u> <u>ALISON COKE, Sworn</u>	6462
Direct Examination by Ms. Blastorah	6462

I N D E X O F E X H I B I T S

<u>Exhibit No.</u>	<u>Description</u>	<u>Page No.</u>
191	Witness statement for Panel 5.	6457
192	Sketch re: value added concept by Ms. Coke.	6485
193	Hand-drawn sketch of input/output model.	6515
194	Sketch of multiplier concept.	6516
195	Interrogatory Question No. 6 posed by Forests For Tomorrow.	6523
196	Pie Chart.	
197	Map of Ontario's key markets.	6552
198	Revised Capital and Expenditure Table at page 200 of Panel 5 witness statement.	6598
199	Table showing further breakdown of capital and repair expenditures (Exhibit 198).	6599
200	Revised Table of Future Capital Expenditures.	6603
201	Diagram of twin wire equipment.	6606
202A	Copy of U.S.A. Today, dated August 24, 1988.	6617
202B	Comics section from Courier Post dated November 7, 1987.	6617
202C	Copy of Evening Bulletin dated August 11, 1988.	6617

1 ---Upon commencing at 8:35 a.m.

2 THE CHAIRMAN: Good morning, ladies and
3 gentlemen. Please be seated. Ms. Blastorah?

4 MS. BLASTORAH: I think I am going to
5 lose my microphone here. I think I am too short for
6 this setup. I will start by filing the exhibit copy of
7 the witness statement for Panel 5, Mr. Chairman.
8 (handed)

9 THE CHAIRMAN: Very well, thank you.
10 This will be Exhibit 191.

11 ---EXHIBIT NO. 191: Witness statement for Panel 5.

12 MS. BLASTORAH: Mr. Chairman, I should
13 begin by informing the Board and the parties here today
14 of a change in the composition of Panel No. 5. As you
15 will see from the witness statement, Mr. Armson was to
16 appear before the Board and give evidence in relation
17 to paragraphs 1 to 7 of the material set out in the
18 witness statement, and that is the portion entitled:
19 The Forest Products Industry.

20 As you are aware, Mr. Armson has been a
21 member of each of Panels 2, 3 and 4 and, at the same
22 time, he was involved in preparing answers to
23 interrogatories in relation to all of those panels, as
24 well he will also be appearing in Panel 9 which is the
25 silviculture and principles of forest ecology.

1 As well he was a witness here before the
2 Board over the past several weeks, he has been
3 attempting to prepare his written material at the same
4 time and, of course, he has continued to be the
5 provincial forester throughout that period and to
6 discharge his responsibilities in that regard.

7 So, quite frankly, Mr. Chairman, I am
8 sure you can appreciate he has been spread pretty thin
9 for some time and, quite frankly, he is just tired. I
10 don't think that the material is -- or that this is in
11 any way going to prejudice any of the parties. The
12 material he was to present here was very general in
13 nature and we have asked Mr. Duncanson to pinch hit in
14 that regard and he is going to be covering that
15 material instead of Mr. Armson so there isn't a gap in
16 what will be covered.

17 THE CHAIRMAN: Well, you can assure Mr.
18 Armson that we will not subpoena him to appear at this
19 time.

20 MS. BLASTORAH: Thank you. Now, Mr.
21 Chairman, as you also know, Panel 5 is the panel of
22 evidence which the proponent had to put out as a
23 possible agreed statement of fact. The parties did not
24 accept the witness statement in that regard, as you are
25 aware.

1 THE CHAIRMAN: Just out of curiosity, did
2 you get any agreement?

3 MS. BLASTORAH: No, not that I am aware
4 of.

5 MR. CAMPBELL: We submitted no
6 interrogatories, Mr. Chairman.

7 MS. BLASTORAH: We only had
8 interrogatories from two of the parties, for what that
9 is worth, so I guess the others are sort of deemed to
10 have agreed but, in any event, there was not an
11 agreement.

12 We obviously, when we proposed that, felt
13 the written material could stand on its own. That was
14 apparently not the case because we did receive
15 interrogatories. So, consequently, we don't intend to
16 go through this material in great detail. I think our
17 original intent was that it be pretty well
18 self-contained, but since we did receive
19 interrogatories, we feel that it is important that we
20 go through and highlight the evidence and clarify any
21 areas where we feel that was necessary as a result of
22 the interrogatories and expand slightly on some areas
23 to that end.

24 The subject of the panel's evidence is
25 the forest products industry. Our purpose in putting

1 this evidence before the Board is to provide background
2 information which will help to put the proposed
3 undertaking into context. The purpose of the
4 undertaking, as stated in the Environmental Assessment
5 Document, is to provide a continuous and predictable
6 supply of wood to the forest products industry and,
7 thereby, to benefit the people of Ontario.

8 In light of that purpose, the Ministry of
9 Natural Resources feels that it is important that the
10 Board understand why a continuous and predictable
11 supply of wood is important and how providing that
12 supply will benefit the people of this province.

13 Ms. Coke, who is the lady in the red
14 blouse here, will describe the composition of the
15 forest products industry and its importance in a
16 socio-economic environment of Ontario. In particular,
17 you will hear evidence of the industry's special
18 significance to people and communities within the area
19 of the undertaking, the northern part of the province.

20 THE CHAIRMAN: Would you like to swear
21 the witnesses?

22 MS. BLASTORAH: Yes.

23 THE CHAIRMAN: Would you like to have
24 them sworn at this time.

25 MS. BLASTORAH: Okay. Perhaps, I just

1 have a very few opening remarks as to what the other
2 two witnesses will cover and maybe we could swear them
3 all at once.

4 THE CHAIRMAN: Very well.

5 MS. BLASTORAH: Dr. Andersen, who is the
6 gentleman at the end here in the glasses, will give
7 evidence relating to the current and projected demand
8 for the industry's various products. This information
9 is obviously important to the Board's understanding of
10 existing and future wood supply requirements.

11 Mr. Duncanson, the gentleman in the
12 middle, will identify factors affecting the
13 competitiveness and growth potential of the industry.
14 Some of those factors, such as currency exchanges, are
15 beyond the control of both industry and the government.

16 His evidence will highlight the
17 importance of security of wood supply at competitive
18 prices in relation to both of those items and will
19 indicate to the Board the need for flexibility in the
20 Ministry's planning process in order to adequately
21 protect the environment while at the same time meeting
22 both the long and short-term requirements of the
23 industry. Perhaps we could swear the witnesses at this
24 time.

25 THE CHAIRMAN: All right. Would each of

1 you come forward, please, if you don't mind.

2 PETER R. ANDERSEN,
3 JOHN M. DUNCANSON,
 ALISON COKE, Sworn

4 MS. BLASTORAH: One last matter, Mr.
5 Chairman, just sort of a housekeeping matter. I have
6 been advised that there are a couple of, I think
7 typographical, or some kind of errors in two of the
8 tables in the witness statement. They are Figures 3
9 and 4 which are found at pages 140 and 142.

10 We are checking on those numbers now and
11 we will be providing revised tables with the corrected
12 figures hopefully before the panel is off the -- we
13 will certainly make every effort to do it before the
14 panel is off the stand and we hope to be able to do
15 that at the beginning of next week.

16 I would like to take just a couple of
17 minutes to qualify each of the witnesses very briefly.
18 We do have CVs in the front of the material.

19 THE CHAIRMAN: Briefly.

20 MS. BLASTORAH: Briefly.

21 DIRECT EXAMINATION BY MS. BLASTORAH:

22 Q. Dr. Andersen, I understand that you
23 have a Bachelor of Arts in Economics and Political
24 Science from the University of Toronto?

25 MR. ANDERSEN: A. Yes, that's correct.

1 Q. And you also have a Master's and a
2 Ph.D in economics from Harvard University?

3 A. Yes, that's correct.

4 Q. And I also understand on completion
5 of your studies that you went to work for the Bank of
6 Canada for about seven years?

7 A. Yes, that's correct. I was Assistant
8 Chief of the Research Department at the bank.

9 THE CHAIRMAN: Sorry, could you speak up,
10 sir, or perhaps your the microphone is not on.

11 MS. BLASTORAH: Is that on?

12 DR. ANDERSEN: Excuse me, is it working
13 now? I think I had a short cord here, so I will try
14 and do better.

15 MS. BLASTORAH: Q. Dr. Andersen, could
16 you very briefly give some indication of what your
17 responsibilities were with the Bank of Canada?

18 DR. ANDERSEN: A. At the Bank of Canada,
19 I was the Director of the economic forecast operation
20 providing economic forecasts on a regular basis to the
21 governor. And at the end of my stay I was Assistant
22 Chief of the research department.

23 Q. Thank you. And you currently work as
24 a consulting economist in economic forecasting?

25 A. That is correct. I am the president

1 of my own independent consulting firm and have been in
2 that position for the last four and a half years.

3 Q. And I understand that you have worked
4 as a consulting economist and economic forecaster for
5 some longer period than that?

6 A. That is correct. I started working
7 in the private sector as a consulting and forecasting
8 economist in 1972 and have been doing that steadily
9 ever since.

10 Q. Could you please describe briefly for
11 the Board what that work entails?

12 A. My work involves several sorts of
13 clients. Basically my job is to try and forecast
14 economic trends, and from those economic trends to
15 derive specific implications for specific companies,
16 specific industries, and so on. My clients include
17 both a range of different kinds of manufacturing and
18 other private corporations as well as financial
19 institutions and, in addition, I work for some
20 associations. I act as the Chief Economist for the
21 Canadian Home Builders Association on a consulting
22 basis through my firm.

23 Q. And is this the same sort of work
24 that you did as Chief Economist while you were at Burns
25 Fry?

1 A. Yes, I was at Burns Fry for
2 approximately two and a half years as Chief Economist
3 and in that position it was my responsibility to try
4 and look down the road and see what was coming with the
5 economy, with interest rates, things like that.

6 Q. And, again, while you were a
7 partner -- an economic partner, I believe at Woods
8 Gordon?

9 A. Yes. I spent most of the 1970s with
10 Woods Gordon, most of that period as a partner in the
11 firm and I was Director of the economic forecasting
12 practice at Woods Gordon and, in that position I was
13 involved in a large number of forecasting and industry
14 studies that were both short-term and long-term in
15 nature and involved a number of considerations such as
16 demographic trends and so on.

17 Q. Thank you.

18 MS. BLASTORAH: Mr. Chairman, I would ask
19 that Dr. Andersen be qualified as an expert in
20 economics with particular expertise in macro-economic
21 forecasting.

22 THE CHAIRMAN: He will be so qualified.

23 MS. BLASTORAH: Q. Ms. Coke, I
24 understand that you have a Bachelor of Arts in
25 Political Science as well from Queen's University?

1 MS. COKE: A. That's true.

2 Q. And you also have a Master's in
3 International Studies from the American University in
4 Washington, D.C.?

5 A. That's correct.

6 Q. And I understand that that work had a
7 particular emphasis on resource extraction?

8 A. Correct. While I was at the American
9 University, I did a major paper on --

10 MS. BLASTORAH: Can you hear Ms. Coke?

11 THE REPORTER: No.

12 MS. COKE: Sorry.

13 MS. BLASTORAH: Maybe you could move the
14 microphone.

15 MS. COKE: While I was at the American
16 University in Washington I did a major paper on law of
17 the seabed and resource extraction.

18 MS. BLASTORAH: Q. And you also have a
19 Master of Philosophy from Oxford in Latin American
20 Studies, I understand?

21 MS. COKE: A. That is correct.

22 Q. And I believe that had a particular
23 emphasis on economic development issues?

24 A. It did indeed.

25 Q. And you are currently completing a

1 Masters in Industrial Relations at the University of
2 Toronto?

3 A. That is correct.

4 Q. I understand you began your working
5 career as a distribution analyst in the British
6 Columbia forest products industry?

7 A. For Crown Zellerbach, yes.

8 Q. You have also worked as a consultant
9 on trade and tariffs for the British Columbia Ministry
10 of Economic Development.

11 A. Yes, I did and --

12 Q. Very briefly -- sorry.

13 A. Okay, go ahead.

14 Q. Very briefly, what did that involve?

15 A. My main responsibility was to prepare
16 and present the province's case to the anti-dumping
17 tribunal in Ottawa and to work with the industry groups
18 affected by this hearing, this investigation.

19 Q. What was that investigation into?

20 A. It was with respect to alleged
21 dumping of wide flange steel into the B.C. market
22 from the Japanese -- among other, from Japanese
23 sources.

24 Our position basically was that we had
25 traditionally -- because of the way the transport costs

1 are played out and because Japan had traditionally
2 supplied the B.C., for lots of reasons B.C. had become
3 dependent on the Japanese suppliers.

4 And so our case was basically that we
5 had -- that dumping was not occurring, they were our
6 traditional suppliers and that we should not be facing
7 a duty.

8 Q. And what sort of analytical work did
9 that involve referring to that?

10 A. Really looking at the markets, the
11 natural markets for steel and the impact of cutting off
12 supplies on local industry.

13 Q. Okay. And subsequent to that you
14 were manager of co-ordinated programs for the Economic
15 Development Branch of that same Ministry in B.C.?

16 A. That is correct.

17 Q. And I understand you were responsible
18 for management of some projects there?

19 A. While I held that position my main
20 job was to ensure that cost-shared agreements that had
21 been negotiated with the Federal Government for
22 regional development in British Columbia were properly
23 administered.

24 Q. And then you moved to Ontario and I
25 understand that until recently you have worked for the

1 Ontario Ministry of Treasury and Economics as an
2 economist?

3 A. That is correct.

4 Q. And you are in fact Senior Economist
5 with the Economic Development Branch of the Ontario
6 ministry of Treasury and Economics?

7 A. I was.

8 Q. Briefly what were your
9 responsibilities?

10 A. My main responsibility -- my main
11 responsibilities involved again analysis and the
12 negotiation of cost-shared agreements for regional
13 development for Ontario with the Federal Government and
14 some evaluation of these agreements and also just
15 overseeing the administration to ensure they were being
16 properly administered.

17 Q. And finally I believe in 1987 you
18 were succeded to the Corporate Policy Secretariat of
19 the Ministry of Natural Resources?

20 A. Yes, I was.

21 Q. And what are your responsibilities
22 with that...

23 A. My prime responsibility has been the
24 preparation of this statistical report on forest
25 products industries, but I also have undertaken a

1 number of other projects. Included, just beginning to
2 work on the preparation of natural resources issues
3 related to the upcoming GATT negotiations.

4 I have worked on the Ministry of Natural
5 Resources free trade response, developing a trade
6 strategy or some -- developing thinking regarding a
7 trade strategy for resources products for the province.
8 So a number of widely divergent projects.

9 MS. BLASTORAH: Thank you.

10 Mr. Chairman, I would ask that Ms. Coke
11 be qualified as a general economist familiar with the
12 statistics of regional development economies.

13 THE CHAIRMAN: She will be qualified in
14 that area.

15 MS. BLASTORAH: Thank you.

16 Q. Finally, Mr. Duncanson. I understand
17 you have a Bachelor of Science of Forestry from the
18 University of Toronto?

19 MR. DUNCANSON: A. That's correct.

20 Q. And after completion of your degree
21 you worked for about ten years in the forest products
22 industry, primarily in sales and marketing?

23 A. That is correct.

24 Q. And what did you do with the
25 industry?

1 A. It was primarily international
2 marketing and sales of all major forest products
3 commodities: Lumber, pulp, newsprint.

4 Q. And did that involve you in any kind
5 of market analysis work?

6 A. Yes, I had to do extensive market
7 analysis both the North American markets as well as the
8 European and Pacific rim.

9 Q. And I understand in 1983 -- since
10 1983 you have worked in the investment community as a
11 forest products financial analyst?

12 A. That is correct.

13 Q. And what does that work involve?

14 A. It is primarily three facets.
15 Product supply; that is, forest product, supply/demand
16 analysis, financial statement analysis of the various
17 companies operating in the industry both on an
18 international as well as a domestic frame, and also
19 supply investment advice to large financial
20 institutions.

21 Q. And did you do the same sort of work
22 when you were Senior Financial Analyst for McLeod,
23 Young, Weir?

24 A. That's correct.

25 Q. And again when you were

1 Vice-president and Senior Financial Analyst of Wood
2 Gundy Limited?

3 A. That's correct.

4 Q. Do you do any work directly for the
5 forest products industry?

6 A. No, I don't.

7 Q. Why is that?

8 A. We are an independent research
9 boutique. Our prime customers/clients are the large
10 financial institutions.

11 Q. And I understand that you also keep
12 abreast of current forestry issues through involvement
13 in various associations?

14 A. Yes, I am currently a registered
15 professional forester with the Ontario Professional
16 Foresters Association. I am also the first
17 vice-president of the Ontario Forestry Association.

18 MS. BLASTORAH: Thank you.

19 Mr. Chairman, I would ask that Mr.
20 Duncanson be qualified as a financial analyst with a
21 specialty in forest products industry.

22 THE CHAIRMAN: Very well, he will be
23 qualified in that area.

24 MS. BLASTORAH: Thank you.

25 Q. Mr. Duncanson, I would like to begin

1 with a few opening remarks from you, if I can just put
2 a few questions to you.

3 Paragraph 1 of the witness statement
4 refers to the evidence given by Mr. Armson in Panel No.
5 2 where he described - that is at page 21 of the
6 witness statement, Mr. Chairman.

7 And that is where Mr. Armson described
8 the early history of the forest products industry in
9 Ontario and indicated that it has not developed in
10 isolation and that it has been stimulated by factors
11 largely external to Ontario.

12 Is that still the case today?

13 MR. DUNCANSON: A. Yes. This is very
14 much the case and probably more so than ever. The
15 Ontario forest products industry continues to be
16 responsive to changes in a very competitive
17 international market. In its major market, the United
18 States, the Ontario industry has had to respond to both
19 technical as well as demographic changes. Some of
20 these technological changes have been both in the
21 product manufacture as well as the end market products.

22 Q. And we will be hearing more about
23 that later?

24 A. Yes.

25 Q. I understand that your evidence will

1 address why you say that is so and the impact of that
2 fact on the future of the Ontario forest products
3 industry?

4 A. Yes. Ms. Coke will be describing the
5 current state of the forest products industry in
6 Ontario in terms of its composition and contribution.
7 Dr. Andersen will be giving evidence regarding factors
8 affecting the current and future demand and then
9 finally I will be giving evidence re: factors
10 affecting the competitiveness of the industry and
11 factors affecting the investment decision.

12 Q. In paragraph 2 of the witness
13 statement, which is again at page 21, you indicate that
14 the forest products industry can be broken down into
15 three components. Those are logging, wood industries
16 and paper and allied industries.

17 A. That is correct. Ms. Coke will be
18 describing these three components in much more detail.

19 Q. What exactly do you mean by wood
20 industries and paper and allied industries?

21 A. Basically by wood industries we
22 include the lumber, the waferboard, particle board,
23 plywood and veneer industries. The paper and allied
24 industries are primarily the pulp and paper industries
25 which include newsprint, the manufacture of fine

1 papers, all various grades, and pulp.

2 Q. Are there significant differences
3 among those three sectors in terms of the issues that
4 are discussed in the report?

5 A. Yes. The wood industries and the
6 pulp and paper industries have significant differences
7 regarding demand and also the factors that affect
8 competitiveness.

9 Both of these major sectors; the woods
10 industries and the pulp and paper industries, they
11 serve basically the same geographic market, however,
12 there are significant differences for demand for each
13 of the wood industry and pulp and paper industries.

14 The logging industry, third sector is
15 significantly different from the wood industries and
16 the pulp and paper industries and it has to adapt to
17 changes that happen in both the wood industries as well
18 as the pulp and paper industries.

19 Q. And again we will hear more about
20 that during your evidence?

21 A. Yes, we will.

22 Q. Ms. Coke, if we can turn to you. I
23 understand that you were responsible for authoring the
24 report which appears as Document No. 1 to the witness
25 statement and that can be found at page 30 of the

1 witness statement. It is a report entitled: The
2 Ontario Forest Products Industry, A Statistical
3 Profile; is that correct?

4 MS. COKE: A. That is correct.

5 Q. And was that prepared for the Ontario
6 Ministry of Natural Resources?

7 A. It was.

8 Q. Why was that report prepared?

9 A. Okay. There are a number of reasons
10 why this material was put together. First of all, it
11 has been developed to provide an overview of the forest
12 products industries statistics; that is, statistics of
13 the Ontario forest products industry. It has also been
14 developed to show the importance of this industry to
15 the Ontario economy.

16 It is being provided so that the Board
17 may have information or the data necessary to begin to
18 assess the health and prospects of the sector. Another
19 reason is to introduce the structure of the industry
20 and to show some of its major component parts.

21 MS. COKE: Are we having any trouble
22 hearing? Am I too soft?

23 MS. BLASTORAH: I guess we will just have
24 to speak up as loud as we can. It sounds like we have
25 some major construction going on out there.

1 THE CHAIRMAN: I wonder if we might try
2 and shut the windows at the back there.

3 MR. CASTRILLI: I wonder if Ms. Blastorah
4 could turn up the mike or turn it down towards --

5 MS. BLASTORAH: Oh, sorry, Mr. Castrilli.
6 If I turn this microphone down to my mouth it falls out
7 of the holder. I'll do my best.

8 MR. CASTRILLI: Maybe the mike should be
9 on a tripod.

10 MS. BLASTORAH: Maybe I need a stool.

11 Okay, I'll try and speak up. Let me know
12 if you can't hear me.

13 MR. CASTRILLI: Thank you.

14 MS. COKE: Shall I start again?

15 MS. BLASTORAH: Q. Well, or you can
16 continue on.

17 MS. COKE: A. All right. Okay.
18 Basically it has a number of purposes, to give you
19 background data on the forest products industry in
20 Ontario, to show the importance of the Ontario forest
21 products industry to the economy overall, to give you
22 the data necessary to begin to assess the health and
23 prospects of the industry, to introduce the Board to
24 the structure of the industry, its major component
25 parts, and to very quickly go over some of the major

1 products produced and its orientation in terms of
2 demand and its size, to provide some insights into the
3 special role which the Ontario forest products industry
4 plays with respect to the Canadian industry. And
5 finally to examine the sub-regional presence of our
6 Ontario forest products production activity; that is,
7 where is it located in the province and, in particular,
8 to identify some of the more important forest products
9 communities in the north and the importance of the
10 industry to some of these communities in the north.

11 I am going to go through about five
12 different subject areas and address it in five
13 different parts. First of all I would like to
14 introduce some of the technical terms which are used in
15 this document and demystify these and hopefully make
16 them clear.

17 The mainly I'm going to be addressing
18 three; the term gross domestic product and gross
19 national product, the term value added, and the term
20 the multiplier. I will also introduce some of the
21 major sources used and which I have drawn upon to
22 develop this report. Then I will quickly move into a
23 discussion of the industry describing its major
24 component parts, its size in terms of employment and
25 value added, its market orientation, regional location,

1 and just briefly mention some of the major players in
2 the industry.

3 I will then try to describe for you the
4 importance or relevance of this industry to the Ontario
5 economy overall: How big is it relative to all other
6 activities in economy and, more importantly, what is
7 its indirect impact on activities elsewhere in the
8 economy.

9 We will then move to the national scene
10 and say: Where does Ontario fit in Canada, is this an
11 important part of the Canadian sector and do we play a
12 special role in the production side and in terms of
13 exports. And finally we will look at the regional
14 relevance of the industry, of its sub-regional
15 presence, value added, in particular, employment and
16 some data on some communities.

17 Q. And I understand that will deal
18 particularly with again the northern part of the
19 province?

20 A. That is true.

21 Q. Okay. I see you have put up a bullet
22 chart--

23 A. Yes.

24 Q. --on the screen here. Is that
25 something that is in the witness statement, or is this

1 something new?

2 A. Oh. What all this is is really some
3 of the major technical terms that I am using just so
4 that you know, there is no picture in the text, but
5 these are the terms I am going to be talking about --
6 some of the terms I am going to be talking about in the
7 first section.

8 MS. BLASTORAH: Mr. Chairman, this is
9 really just up there to sort of as a catch your eye.
10 It is all information that is contained in the witness
11 statement.

12 THE CHAIRMAN: All right. Well, we do
13 not have to admit that, I don't think.

14 MS. BLASTORAH: Thank you.

15 MS. COKE: Okay. Well, the first term
16 that we use that may not be something that you use
17 every day is the term gross national product, what does
18 this mean. At its essence really it just means the
19 money value of all the goods and services produced in
20 an economy at a specific given period of time. So what
21 it covers off is final demand by consumers such as you
22 and I of government, net exports; that is our exports
23 minus our imports or the size of the activity which
24 Canada generates outside its borders and finally gross
25 investment.

1 It really is -- it can be looked at in
2 two ways which are basically flip sides of the same
3 coin. On the one hand it measures all the goods that
4 are supplied by businesses or all the money value of
5 all the purchases made in the economy. On the other
6 side it can be seen as all the incomes generated as
7 those goods are supplied. So as businesses and firms
8 supply goods to consumers and governments, it is the
9 incomes, all the wages and incomes generated as a
10 result of that production activity. So if you look at
11 GNP it can be measured either way.

12 Gross domestic product is just a smaller
13 universe of the same thing. Essentially it takes out
14 the income which is repatriated from Canadian firms
15 abroad. So, for example, if a major firm such as
16 Alcan, for example, had a plant outside the country and
17 it repatriated some of its profits to Canada, that
18 would be excluded in the measure of gross domestic
19 product. And gross domestic product was the term that
20 we used throughout this report because it shows the
21 amount of activity that is going on in the economy
22 itself and it is a very important measure.

23 The trouble sometimes with gross domestic
24 product is that it includes things like indirect taxes,
25 sales tax for example, so it isn't -- those taxes

1 distort the real value that has occurred in the
2 economy. So taking out our accounting for subsidies
3 and indirect taxes we end up with a measure called
4 gross domestic product at factor prices and you will
5 see that that is a term used on some of the pages in
6 this report. So essentially that is what GNP, GDP and
7 GDP at factor cost mean.

8 MS. BLASTORAH: Q. And that is the only
9 difference then between GDP at market prices and GDP at
10 factor costs?

11 A. That is right, that is correct. It
12 is just a closer approximation of what is going on,
13 what actually happened.

14 Q. Okay. Ms. Coke, I am sorry. I see
15 you have indicated at page 40 of the witness statement
16 that the best money gauge of the relative economic
17 importance of a manufacturing industry is the concept
18 of value added.

19 Will you, please, explain that concept
20 and why you say that?

21 A. Yes, okay. Value added is simply the
22 difference between what a firm receives in revenue for
23 its output and the costs that it incurs to buy
24 intermediate inputs to produce its good.

25 First of all, I will define what

1 intermediate inputs are. We have two kinds of
2 products, we have intermediate and we have final
3 products. When I buy butter at the grocery store to
4 butter my bread it is a final product because it's not
5 for resale and it's not for further processing.

6 But when a bakery buys butter to go into
7 bread manufacturing it is an intermediate input or
8 intermediate product. So, therefore, anything that is
9 going -- anything that is going into production is an
10 intermediate good.

11 So I am going to show you a picture of
12 value added. Maybe that will help.

13 MS. BLASTORAH: Before you go to -- do
14 you need a microphone. Okay.

15 MS. COKE: I can hold that. That's okay.

16 Assume you are a violin manufacturer, you
17 have got a plant and you produce violins. In order to
18 make the violins you have to buy a number intermediate
19 goods: You have to buy string and you have to buy wood
20 and you have to buy lacquer and paint. So if the cost
21 of all those intermediate inputs is a hundred dollars,
22 but the value of the violin that you produce or the
23 revenue your bringing in is five hundred dollars, the
24 value added is simply the difference, five hundred
25 minus a hundred which is four hundred dollars.

1 And actually it is quite an
2 interesting -- if you can compare value added it is a
3 very important concept because it really tells you what
4 has happened, what is the transformation that's
5 happened in the economy. And one of the best analogies
6 that I can use is to say: Well, compare it to
7 something like value of shipments, why is it important.

8 Again I go back to the analogy of a
9 bakery this time versus a Rolls Royce distributorship.
10 If am running a bakery and I have value of shipments
11 the goods coming out of my door is a thousand dollars;
12 I may have inputs worth a hundred dollars, eggs and
13 flour and butter.

14 So that what has happened within my
15 business is I have created nine hundred dollars worth
16 of value. And if I am a Rolls Royce distributorship I
17 bring in a Rolls Royce that cost me nine hundred
18 dollars and my shipment still may be a thousand
19 dollars, but all I have added is a hundred dollars
20 worth of value which is the paperwork I performed to
21 bring this work in.

22 So essentially value added is a very,
23 very important concept in terms of what the economy
24 makes and it gets at the base of what we are trying to
25 get at.

1 THE CHAIRMAN: Ms. Blastorah, do you want
2 to mark that as an exhibit?

3 MS. BLASTORAH: Well, I suppose we may as
4 well add it to the art collection.

5 THE CHAIRMAN: Okay, Exhibit 192.

6 MS. BLASTORAH: Q. Ms. Coke, I think the
7 next term that you mention --

8 THE CHAIRMAN: Shall we entitle it Sketch
9 concerning value added concept or something like that.

10 MS. COKE: All right, that sounds good.

11 ---EXHIBIT NO. 192: Sketch re: value added concept by
12 Ms. Coke.

13 MS. BLASTORAH: I think the violin looks
14 a little like Picasso there. We should get more for
15 this one.

16 MS. COKE: Okay. The final concept that
17 I want to explain is the multiplier and this will be
18 dealt with in much more detail in a couple of practical
19 examples that are included in my report or studies that
20 we have referred to that use the multiplier. The basic
21 idea in the multiplier is that demand on one sector
22 will generate demands on other sectors in the economy
23 which will generate demands on other sectors in the
24 economy and so on.

25 And some of you may have watched Ed

1 Sullivan in the old days and he used to have a fellow
2 come on and he had this terrific trick with dominoes.
3 We would have them all lined up in the most exotic
4 patterns and you would see these dominoes all set up
5 standing up and then he would go and he would touch the
6 very first one and they would all touch each other and
7 they would all fall down in a perfect line.

8 Well, essentially the multiplier is
9 tracing the same kind of thing. It is the impulse of
10 the investment through the economy. So, for example,
11 if you are a prefab home manufacturer, as soon as
12 somebody says I want a home, you probably have to turn
13 around and go and buy lumber and paint, that means you
14 are putting demands on the saw mill industry and on the
15 chemical industry and that they in turn have to buy
16 containers from the metal industry and loggers have to
17 produce the wood. So essentially the multiplier is
18 just tracing this activity.

19 Another example is, for example, if you
20 want to put a \$40,000 extension on your home, you put
21 the contract out, all the nails and paint are purchased
22 and that goes through the system, but at every step of
23 the way some of the original spending may be taken out
24 because people may not spend it all, they may save some
25 of it, so the impulse becomes smaller and smaller and

1 smaller.

2 But the bottom line is the multiplier
3 traces the impact of the original shock or demand on
4 the system on employment or in income terms. And so we
5 are going to be talking about this and I'm going to
6 give a couple of examples, some of the examples that
7 are in the report.

8 MS. BLASTORAH: Q. Finally I think, Ms.
9 Coke, you indicated that you wanted to outline the
10 major sources you used in preparing this report?

11 MS. COKE: A. Okay. Obviously this kind
12 of a report which is basically statistical has drawn on
13 a number of sources. I will name some of the more
14 important ones. First of all the Survey of Employment
15 Payroll and Hours which is an establishment based
16 survey which really looks at things like hours of work,
17 it's employee focused, but it excludes a number of
18 categories and these are named in my report:
19 Self-employed people, unpaid workers, you know, people
20 who volunteer, contract staff, elected officials,
21 military personnel, and firms engaged in agriculture,
22 fishing, trapping and private household services such
23 as domestics.

24 The second source and by far and away the
25 most important has been a Census of Manufacturers

1 survey which is a survey of firms, again when I say an
2 establishment based it means it looks at companies as
3 opposed to people. The Census of Manufacturers
4 primarily looks at larger firms, but there is a sample
5 survey of smaller firms as well and it gives us good
6 information on employment.

7 The third source of information was the
8 Labour Force Survey which here is a survey of
9 individuals as opposed to companies. It includes
10 unpaid workers. So anybody who is -- somebody who may
11 be working, for example, in the voluntary sector,
12 employees and self-employed people or family workers in
13 the economy such as husbands or wives that do
14 accounting for their spouses, but it excludes military,
15 religious organizations, persons living on Indian
16 reserves, inmates and full-time members of the armed
17 forces.

18 Finally the Census of Population which of
19 course you and I fill out every five years. The beauty
20 of this source is that it is quite comprehensive. The
21 problem with it is it is only available every five
22 years and the results for Ontario, for example, won't
23 be available until December. So we have used it where
24 we could because it is quite comprehensive but it is
25 often quite dated information.

1 The main source from a manufacturing
2 point of view has been the Census of Manufacturers.

3 Q. And who produces all those various
4 sources that you have referred to?

5 A. Those are Statistics Canada.

6 Q. Thank you.

7 A. When I was looking at these sources
8 for the most part they were able to -- we were
9 allowed -- we could develop, we could get the
10 information that we needed from them with one major
11 exception.

12 THE CHAIRMAN: Excuse us a moment. Does
13 anyone know if that is outside the hotel or is that
14 part of their renovations upstairs?

15 MS. BLASTORAH: It sounds like it is on
16 the street, Mr. Chairman, unfortunately.

17 MR. DADDS: Just outside the Hydro
18 building.

19 MS. BLASTORAH: Another question of how
20 far your jurisdiction extends, I guess.

21 THE CHAIRMAN: Probably not that far,
22 although we could try being an Ontario utility we might
23 have the power to shut them down.

24 MS. BLASTORAH: It's a noise pollution, I
25 think we should stop it.

1 THE CHAIRMAN: All right. I guess we
2 will just have to continue.

3 MS. COKE: I can speak louder. Would
4 that help?

5 MS. BLASTORAH: Q. Okay, I think that
6 will help. The louder you can speak the better.

7 MS. COKE: A. Okay. For the most part
8 this information we had was quite adequate to show the
9 kinds of things that we wanted to show with one major
10 exception and that was at the community level.

11 For example, while a Census of
12 Manufacturers allows you to allocate employment at the
13 sub-regional level, there is not very good information
14 at the community level, so I had to develop my own
15 based on Scott's Industrial Directory and the Ontario
16 Municipal Directory. There is one other thing I should
17 mention now and that is that export data at the
18 provincial level tends to be -- well, it is difficult
19 to work with it. And the reason is, for example, that
20 the port of exit -- or the province of port of exit is
21 where the goods are attributed, it is the province.

22 So, for example, Ontario is a major
23 producer of grain according to Statistics Canada
24 because so much of the grain from the prairies is
25 exported through our ports. So I think that's another

1 warning that some of the export data at the provincial
2 level should be looked at really carefully.

3 Okay. I'll just begin by introducing the
4 forest products sector.

5 Q. I was going to ask you to do that.

6 THE CHAIRMAN: Ms. Coke, I am going to
7 have to ask you just to slow down a touch because the
8 court reporter has to take all of this down verbatim
9 and she is having a little bit of difficulty keeping
10 up.

11 Thank you.

12 MS. COKE: I'm sorry.

13 MS. BLASTORAH: Can everyone see that
14 board.

15 MR. FREIDIN: Can you focus it a little
16 bit better.

17 MS. BLASTORAH: Unfortunately, the print
18 in those boxes is very small.

19 MS. COKE: I have a reference in the
20 document.

21 MS. BLASTORAH: Yes. This is on page 45
22 of your witness statement, Mr. Chairman. If anybody is
23 having difficulty reading it, I don't know that it is
24 that much more legible in the witness statement,
25 actually, the print is so small.

1 I think if you squint you can read the
2 fine print.

3 MS. COKE: All right. What we have here
4 is a diagram that I have taken right out of the
5 Canadian Forestry Services statistical profile of this
6 industry, so it represents the categories which
7 Statistics Canada uses to describe the forest products
8 industry in Canada and, of course, in Ontario.

9 It shows that the industry is essentially
10 divided into three components; the logging sector, the
11 wood industry sector and the paper and allied
12 industries group and these three components may be
13 differentiated along a number of lines. First in terms
14 of their size, that is their contribution to value
15 added and employment size, their production focus, the
16 major outputs that they produce, their market
17 orientation and their regional relevance, that is where
18 they are located.

19 One of the things I would like to say
20 before launching into this description of the industry
21 is that we normally -- we have said in our report that
22 there are 72,000 people employed in the forest products
23 industry in Ontario. This number does not include
24 silviculture workers, fire fighters, other seasonal
25 workers, nursery and greenhouse workers, or public

1 servants engaged in forest-related activity such as
2 myself.

3 Q. Why were those people not included?

4 A. They are not picked up by the survey.
5 Essentially they are not picked up by the survey --
6 well, all of the people except MNR and MOE, for
7 example, would not be picked up by the survey. The
8 public employees of course are not picked up because
9 they are not counted as part of the forest products
10 industry.

11 And there is another group that I think
12 should be named and those are workers in furniture and
13 fixture manufacturing and printing and publishing and
14 there is a couple of reasons why these kinds of
15 employees are not included. First of all, they are not
16 part of the categories that Stats Canada calls part of
17 the forest products industry and that seems to be --
18 while they work with wood and wood-related products,
19 the value of the wood input to the output, to the end
20 product may be very small.

21 For example, furniture may well have wood
22 in it, but it also has chrome and glass and other
23 things and it is difficult to attribute how much of
24 furniture and fixture is wood-related activity and how
25 much is non-wood. And the same thing holds true for

1 printing and publishing where in fact the paper of
2 course is obviously from the forest products industry,
3 but it's the printing and binding and all of the other
4 things that of course make this a very high value added
5 product.

6 Q. So would that 72,000 person number be
7 considerably larger or significantly larger if you
8 counted in all those other people?

9 A. All that I can truthfully say is that
10 it is a conservative estimate because it excludes these
11 other workers, potentially -- whose jobs potentially
12 relate to the forest products industry, but it is a
13 useful proxy and it's a good comparison -- point of
14 comparison for other sectors in the economy and it is
15 certainly a figure that other very reliable sources
16 quote as, you know, the forest products industry
17 employment.

18 Q. Okay. I see on your chart up here
19 the first box that you coloured in yellow on the
20 overhead is logging. Could you give the Board a brief
21 overview of the logging sector of the forest products
22 industry?

23 A. Okay. First of all, the logging
24 sector is the smallest of the three components. It
25 contributes about -- it contributed about 400-million

1 to provincial value added in 1984.

2 Q. And four hundred million, is that
3 dollars?

4 A. Yes, \$400-million sorry, and employed
5 about 9,000 people. Its major output of course is
6 industrial roundwood and its markets are the primary
7 and secondary processors of the province.

8 Q. Now, I am not sure whether the Board
9 is familiar with the term industrial roundwood.

10 A. Oh, okay.

11 Q. So could you explain that very
12 quickly.

13 A. Basically that is sawn lumber once it
14 is off the stump. When you see the trains going by and
15 the trucks going by that's industrial roundwood. The
16 output from the logging sector, most recent figures are
17 about 20-million cubic metres per year.

18 The interesting thing about this sector
19 is more than the other two, the demand for industrial
20 roundwood depends upon the demand for the end products
21 into which it is fed. So, therefore, activity in
22 logging is quite significantly related to activity in
23 the end use industries, particularly wood industries
24 and and paper and allied industries.

25 So as the fortunes of those industries

1 go, so seems the fortune of the logging sector. Having
2 said that, I want to put a graph up.

3 Q. Okay. And I understand that this is
4 again something that's in the witness statement, Ms.
5 Coke, at page 58 I believe?

6 A. That's right.

7 Q. It is Figure 10 in the witness
8 statement.

9 A. What you have here of course is a
10 picture of a graph showing the rises and falls in the
11 number of people employed in the logging industry from
12 the 70-85 period. And it looks -- you can see the
13 cycles are quite wide. You can also see that the
14 downturns are not -- are at the same time as the major
15 recessions that the economy went through in 75 and in
16 81-82. But if you really -- if you look at the curve,
17 the line, essentially if you fitted the curve it would
18 be quite flat. So...

19 Q. When you say, if you fitted the
20 curve...?

21 A. Well, if you tried to find a point
22 midway between all of the points on the curve, so you
23 try to find a point midway between all of these points.
24 Essentially it is not going down, it is not going up,
25 it's essentially just staying fairly stable. So it

1 suggests that the demand for this industrial roundwood
2 is fairly stable.

3 Q. And that is even though the actual
4 demand that we see on the graph is quite fluctuating?

5 A. That's correct.

6 MR. MARTEL: Could I ask a question.

7 MS. COKE: Yes, sir.

8 MR. MARTEL: If the demand is stable
9 leading to not a tremendous increase in the employees
10 but because of the fact that we have moved to a
11 different type of equipment which in fact is producing
12 the same amount of roundwood but with a lot less
13 employees.

14 MS. COKE: There could be lots of reasons
15 for this rise and fall in the logging employment. One
16 of them may well be that we are making more efficient
17 use of the wood that we are cutting so, therefore, we
18 may need less to produce more and in fact that seems to
19 be happening in the paper and allied industry.

20 Indeed changes in technology and
21 harvesting may well mean that you need fewer people to
22 do it. If that's the case and we are making more
23 efficient use of the wood then in fact the stability is
24 quite good because it means that we are needing the
25 same amount of people because we are using less wood to

1 produce the same thing. Was that clear?

2 MS. BLASTORAH: Q. I am not sure that
3 the last part was quite clear, Ms. Coke.

4 MS. COKE: A. Okay, all right. So
5 essentially if we are making more efficient use of the
6 wood that we are cutting, it means that we are holding
7 on to the employees -- the employees are still being
8 held in that sector because we are making more
9 efficient use of the wood itself.

10 Do you understand what I am staying? I
11 am sorry, maybe I'm not making this very clear.

12 THE CHAIRMAN: You are making more
13 efficient use of the wood and yet the demand for the
14 wood remains the same --

15 MS. COKE: Well, you would think the
16 falloff -- there would be a falloff, that's right. But
17 there isn't a falloff, it in fact is staying quite
18 stable, so it would seem that the demand is increasing
19 for the wood. That's exactly right.

20 THE CHAIRMAN: Right. Then it would mean
21 that the demand is increasing if you need the same
22 number?

23 MS. COKE: That's right. Yes, I think
24 that's -- okay. All right. The other two things that
25 we want to say about -- well, other two facts about the

1 industry which may be, I think, are important is that I
2 looked at the statistics for Canada and noted that of
3 it terms of size of firms, 60 per cent of the firms
4 engaged in this industry employ fewer than five people,
5 so there may be a lot of small operators -- there a lot
6 of small operators and small businesses engaged in this
7 industry.

8 At the provincial level, however, another
9 side of the story may be told and that is in 86-87, for
10 example, 2,500 district cutting licences were issued
11 and although they only accounted for eight per cent of
12 the harvest volume. So, therefore, well there may be a
13 lot of small businesses, a lot of small businesses out
14 there operating in this industry, for the most part the
15 cut is harvested, it would seem, by larger firms, by
16 larger operations.

17 The final thing that should be said about
18 this sector is that 96 per cent of the people involved
19 in the industry are located in the north. So 96 per
20 cent of the employment is north, it is an industry
21 which is located in the north.

22 MS. BLASTORAH: Q. And what do you mean
23 by the north?

24 MS. COKE: A. Oh, okay. I am using the
25 Ministry of Treasury and Economics planning regions and

1 there is --

2 Q. I believe there is a map.

3 A. Yes, there is in the interrogatories,
4 we did a map, but it is north of Perry Sound
5 essentially, that area.

6 Q. Is that roughly equivalent to the
7 area of the undertaking?

8 A. Yes, I think -- yes, it is. As far
9 as I understand, it is, yes. I do have a definition of
10 that. Would that be helpful to read the definition of
11 the Ministry of Treasury and Economics?

12 Q. For the sake of clarify I think that
13 might be a good idea?

14 A. Okay. Let me just find that.
15 Ministry of Treasury and Economics has basically
16 suggested that the following would be included in the
17 north: Algoma, Cochrane, Manitoulin, Nipissing, Perry
18 Sound, Sudbury District, Sudbury Regional Municipality,
19 Temiskaming, Kenora, Rainy River and Thunder Bay.

20 And so those are the areas which they
21 normally would include as part of the north from their
22 point of view.

23 Q. Thank you. And you were giving us
24 the breakdown of the percentage of that activity in the
25 north--

1 A. That's right.

2 Q. --that you have described.

3 A. About 96 per cent of the employment
4 in this industry is located in the north, 59 per cent
5 in the northeast, and 37 per cent in the northwest.

6 Q. And, again, when you say northeast
7 and northwest, what do you mean by that?

8 A. Okay, I will break that down further.
9 It is easier to tell you what is not in the northwest.

10 MS. BLASTORAH: Mr. Chairman, maybe
11 rather than having Ms. Coke read out all the list of
12 areas, we did have an interrogatory on this and we did
13 provide a map in response to that interrogatory. I
14 don't have copies here right now, but perhaps after the
15 break I could make copies available and I think a
16 visual map will be --

17 THE CHAIRMAN: All right. That would
18 probably be preferable and save some time.

19 MS. BLASTORAH: Q. Okay. So just for
20 the sake of clarity then when you say the northeast and
21 northwest region, are they the Ministry of Treasury and
22 Economics northeast and northwest?

23 A. That is correct.

24 Q. And those are represented on the map
25 that we are going to be providing?

1 A. That's correct.

2 Q. Thank you.

3 A. Okay. Moving into the second
4 component of the industry, the wood industry component.
5 This is the second largest in terms of employment and
6 value added. 21,000 people are engaged in this
7 industry and it contributed 900-million to provincial
8 value added in 1984.

9 The wood industry may be divided along a
10 number of lines. Statistics Canada has basically
11 divided it along product lines and six product groups
12 are named. The first and the largest in terms of
13 employment and value added is the saw mill and planing
14 group.

15 Q. and are those shown on the figure we
16 have up on the screen, Ms. Coke?

17 A. Yes, they are.

18 Q. I think we have a pointer on the
19 table there if you would like to use that. I guess we
20 are trying to ask you to hold on to too many things
21 here.

22 A. All right. Well, okay. The saw mill
23 and planing mill group, wood industries -- this is the
24 wood industry group and it produces hardwood and
25 softwood lumber basically.

1 Then we have the veneer and plywood
2 sector which produces softwood and hardwood veneer and
3 plywood. The third sector is the sash door and other
4 mill work group which produces a variety of further
5 processed products such as wooden buildings, kitchen
6 and bathroom vanities and cabinets, doors and windows
7 and other mill work such as picture frames and sort of
8 further processed lumber.

9 The fourth and fifth categories are
10 self-explanatory, wooden box and pallets and the coffin
11 and casket industry. Basically what they produce is
12 boxes and pallets and caskets.

13 Q. What do you mean by pallet?

14 A. A pallet is -- it is a wooden
15 platform that you ship products on essentially. It is
16 just a crude form of packaging, I guess.

17 And then finally there is the other wood
18 industry group from which the statistics are basically
19 related to particle board, waferboard, oriental strand
20 board and other sort of -- other wood products.

21 Q. Just for the Board's information,
22 when you say particle board, is that the sort of
23 chipboard type thing we see --

24 A. It is pressed residue, as I
25 understand it. It is residue pressed with a glue and

1 so that it is formed into a board. It is reformed
2 board, I guess, made out of waste.

3 Q. When you say waste, what do you mean?

4 A. I mean residue from sawing the wood
5 and so that is a way of using the sawn wood, but you
6 will get much more information on sort of how those
7 products are developed. But as I understand it, it is
8 basically waste material that has been pressed and
9 formed into a board that you can use in the
10 construction of houses and that sort of thing.

11 Q. Okay.

12 A. Okay. The major markets for
13 Ontario's wood industry are, of course, Ontario itself
14 and the rest of Canada and here it is useful to note
15 that a significant proportion of further processed
16 products that are used in Canada come from Ontario's
17 industry because we have a higher share of a lot of
18 these -- for example, sash door and other mill work, 35
19 per cent of that activity in Canada is located here, so
20 we are a supplier, we are a supplier, but we also
21 supply ourselves but we also supply the export market
22 and you are going to hear much more about, you know,
23 where the market orientation is and of course a lot of
24 our lumber also goes to the United States.

25 Q. And when you say we supply the

1 domestic market; do you mean Ontario or Canada?

2 A. Ontario and Canada, the rest of
3 Canada. In my document I have also shown who the major
4 players are in this industry and I have given you four
5 maps, one of the saw mills, one of the veneer and
6 plywood mills, one of the particle board and waferboard
7 mills and they are pages 71 to 78.

8 I didn't think that I would take you
9 through all of the list of the various -- the major
10 operators, but I wanted to point out that there are
11 these maps and they do show some of the larger mills
12 engaged in this industry and I think we can say a
13 couple of things about those maps.

14 First of all, that --

15 MS. BLASTORAH: Those are the ones on
16 page 71 to 74, Mr. Chairman or I believe --

17 MS. COKE: 71 to 78.

18 MS. BLASTORAH: Q. 71 to 78, I'm sorry.

19 MS. COKE: A. Figure 14.1 through 14.4
20 and essentially what we can say when you look at them
21 is that the mills tend to be scattered in the north,
22 from the mid to the north area. And, as I understand
23 it, that you have to look at each one of those -- there
24 is a history to each one of those mills but they seem
25 to develop in areas approximate to paper and allied

1 firms.

2 Q. Now, when you say the mills, these
3 are which mills?

4 A. These are the saw mills, veneer and
5 plywood mills, particle board mills and waferboard
6 mills. In terms of your employment from a regional
7 point of view, 40 per cent of the employment appears to
8 be in the northern area. So there is quite a bit of
9 employment in the north.

10 MS. BLASTORAH: And, again, Mr. Chairman
11 we didn't intend to take you through all these maps in
12 detail. There are extensive lists on the pages
13 following the maps indicating the actual identification
14 of each of those mills.

15 MS. COKE: Okay. I will finish off by
16 talking about the paper and allied firms, okay.

17 The paper and allied industry is the
18 largest industry, both in employment and value added
19 terms. It employs about 41,000 or employed about
20 41,000 of the 72,000 people engaged in this sector in
21 '84 and contributed 2.4-billion to value added in the
22 output in that year. Like the wood industry, its
23 output is divided along -- statisticlaly along a number
24 of product lines.

25 First of all, there is the pulp and paper

1 group which is well and away the largest component of
2 the sector. Half of the employment in this industry is
3 attributed to the pulp and paper mills in the province,
4 and I think it is about -- so 58 per cent of the value
5 added in this sector comes from this group. Its major
6 products are pulp, newsprint, paper board, building
7 board and other board.

8 The second group in the industry is
9 asphalt roofing. The third is paper box and bag, which
10 basically produces folding cartons, corrugated boxes
11 and bags. And, finally, there is the other converted
12 paper products group which produces coated and treated
13 paper, stationery, paper consumer products and other
14 converted products.

15 So this is where all the paper, the fine
16 tablets and that sort of thing and the magazine type
17 paper comes from.

18 Q. Okay. And I understand we will be
19 seeing some samples of those later in the evidence,
20 some of those products?

21 A. Yes.

22 Q. And the ones that you have been
23 describing are all shown on the tree chart which is on
24 page 45, I believe, under the paper and allied groups?

25 A. That is right.

1 Q. So if anybody wants to refer back to
2 them.

3 A. That's right.

4 Q. I believe, Ms. Coke, that you have
5 some information in your report about the growth in
6 this particular sector?

7 A. Oh, yes. Okay. The fastest -- the
8 largest and the fastest growing parts of the industry
9 have been the pulp and paper and the pulp and paper
10 group and it has shown the strongest growth over the
11 70-85 period. So that is really the largest and the
12 fastest growing group in the sector.

13 Q. Okay. And --

14 A. I guess -- sorry.

15 Q. You have told us something about the
16 markets for the other groups, for logging and wood
17 industry.

18 A. Oh, okay. Again, it is much the
19 same. We supply ourselves and we supply the rest of
20 Canada because of our relatively greater diversity of
21 production of paper and allied industry in Ontario,
22 but we also supply -- we are a great supplier of
23 exports to the United States, particularly newsprint,
24 and that will, of course, come up in later evidence.

25 Q. Okay. When you say we are relatively

1 greater producers, relative to who?

2 A. Relative to the rest of the country.
3 60 per cent -- I think it is 60 per cent of the other
4 converted paper products in Canada are produced here.
5 So if Canada consumes these paper products, there is
6 more likelihood that it comes from Ontario than
7 somewhere else because we produce the goods.

8 Q. I am not sure whether you covered
9 this, Ms. Coke, but I know that you did tell us logging
10 is primarily located in the north. Is that the same
11 with paper and allied?

12 A. Paper and allied firms are -- 33 per
13 cent of the employment, in fact, is located in the
14 north, 66 per cent in the south.

15 So a couple of the points that are kind
16 of interesting about this industry and while it is, of
17 course, closely associated with the north, it is quite
18 unusual in Ontario for an industry to have a
19 province-wide presence and I think that is one of the
20 main points that can be made about this industry, is
21 that there is activity throughout Ontario.

22 Another point that can be made is that it
23 is quite diverse relative to the forest products
24 industry in other parts of the country. For example,
25 in B.C. the emphasis is really on -- is on lumber and

1 on a few -- very few products, whereas Ontario sustains
2 a very diverse product base.

3 Another point that we can make about this
4 sector is that overall, while there have been shifts in
5 employment, clearly the wood industries has gained a
6 lot of jobs in the last few years and there have been
7 fall-off in jobs in the paper and allied sector,
8 overall its employment has been fairly stable and its
9 output in nominal terms of growth, has grown.

10 The other point that can be made about it
11 is that essentially the market for wood industries and
12 paper and allied industries is domestic; that is
13 Ontario and Canada as well as the United States. So
14 those are some of the overall points we can make about
15 the industry.

16 Q. Okay. Ms. Coke, then, if you are
17 finished explaining the three sectors, perhaps you
18 could move on and give us an idea of what the role of
19 the Ontario forest products industry, which includes
20 those three sectors, what the role of that industry is
21 in the economy of Ontario?

22 A. All right. Okay. Essentially, the
23 forest products industry in Ontario accounts for about
24 2 per cent of gross domestic product or 2 per cent of
25 the value added in the economy and about 2 per cent of

1 the labour force. And, as I mentioned before, it is
2 quite a stable employer, although there are shifts
3 within sectors and growth has occurred.

4 One of the problems, however, in looking
5 just at the sector itself, when you start looking at
6 the economy overall, is that it only tells part of the
7 story and that is because of the links between the
8 industry itself and other sectors of the economy; that
9 is, the indirect employment which is generated by this
10 industry.

11 As earlier -- basically unless we include
12 this activity you don't get a full picture of what its
13 impact is on the economy of Ontario and of Canada. We
14 have already introduced the idea of the multiplier
15 which traces the impact of activities on one sector to
16 all sectors in the economy, and the multiplier comes
17 from a framework known as the input/output framework
18 and it shows what happens elsewhere in the economy when
19 a demand hits one sector. I mentioned that already.

20 Q. Okay, Ms. Coke. You have just used a
21 term that I don't think the Board has heard before,
22 input/output.

23 A. Okay. Basically the input/output
24 framework is the framework from which we develop the
25 multiplier, and I am going to go through basically what

1 is behind that idea.

2 The basic idea behind input/output
3 analysis, which is a technique of analysis, is it shows
4 that there is a fundamental relationship between how
5 much goes in to produce a good and how much comes out,
6 and every single activity depends on every other. I
7 have got a flip chart I want to show you.

8 Q. Okay. And is this something that
9 just applies to the forest products industry?

10 A. Input/output analysis applies to all
11 sectors of the economy and -- so forestry is just one
12 of the sectors, but it shows the relationship of
13 forestry to oil and gas, to all of the other sectors in
14 the economy, and I will show you. It is --

15 Q. Maybe if we could just move the flip
16 chart a little closer it might be easier for you.

17 MR. MARTEL: Move it over too.

18 MS. COKE: It is quite a complex system
19 but it is not mysterious because --

20 THE CHAIRMAN: Excuse me, Mr. Martel is
21 having trouble seeing because of this pillar.

22 MS. COKE: Sorry.

23 MS. BLASTORAH: Maybe we could bring it
24 in front of the table, that might help a bit. It will
25 make it difficult for the other witnesses to see that's

1 all.

2 MR. MARTEL: Move it the other way.

3 MS. BLASTORAH: Yes. If we move it in
4 front of the map, will you able to see, Mr. Martel.
5 Perhaps if we just put it there.

6 MS. COKE: Can you see now?

7 MS. BLASTORAH: Actually that will be
8 easier for Ms. Coke too.

9 MS. COKE: It is easier for me. Okay,
10 all right. It is quite a complex system, but it is not
11 mysterious because essentially it is just like baking a
12 cake. It says that in order to produce a cake you need
13 specific quantities of things and if you don't have
14 those specific quantities you know it is not going to
15 turn out properly. And so here we have a -- whoops,
16 the wrong table.

17 All right. So the idea is that we want a
18 tonne of newsprint and here is the mill that produces
19 it. In order to produce that newsprint we need a
20 certain amount of energy, a certain amount of sample
21 chips possibly, chemicals, a certain amount of
22 transport services, a certain amount of financial and
23 insurance services and certainly roundwood.

24 So what the input/output table says is
25 basically if you want so much of newsprint, there are

1 fixed quantities of how much you have to put in to
2 produce that, and these are fixed over time.

3 Now, if technology changes, the amount
4 that you might need to produce wood -- for example, if
5 you can produce a tonne of newsprint with half the
6 roundwood because you have changed the technology, then
7 of course the input/output relationship changes. And
8 so, therefore, from time to time we find that our
9 input/output tables or the tables which show how much
10 you need of one to produce the output will also change.

11 And that has come up because in the
12 examples that I use, we use an input/output model for
13 '79 and we use an input/output model for 1984 because
14 there have been changes and the model has been adjusted
15 to show that change in technology.

16 Q. That is 1979, I take it?

17 A. Sorry '79 and '84, that's right.

18 THE CHAIRMAN: Are we going to make these
19 sketches a series of exhibits?

20 MS. BLASTORAH: I think probably we
21 should, Mr. Chairman, just in case anybody wants to go
22 back and look at them.

23 THE CHAIRMAN: All right, that will be
24 Exhibit 193. I guess it is a sketch of input/output...

25 MS. BLASTORAH: Yes, I think sketch of

1 input/output model, Ms. Coke.

2 MS. COKE: 193.

3 MS. BLASTORAH: Is that an accurate
4 title?

5 MS. COKE: Yes.

6 MR. FREIDIN: You don't have to write the
7 title on it.

8 MS. COKE: Okay. How is that?

9 ---EXHIBIT NO. 193: Hand-drawn sketch of input/output
10 model.

11 MS. COKE: Okay. So when we are linking
12 about input/output, what are we really trying to do?
13 What we are really trying to do is identify the impacts
14 of this initial demand for newsprint throughout the
15 economy and, in fact, you can divide those impacts into
16 three component parts.

17 First of all, there is impacts in terms
18 of the jobs inside the mill to produce the newsprint
19 and that is the direct impact. So the firm actually
20 producing the good being demanded, that is the direct
21 impact.

22 The second impact is the indirect impact,
23 and that is all of the jobs in the firms supplying the
24 pulp and paper mill and supplying the suppliers of the
25 pulp and paper mill. Just to trace it, for example.

1 Oil and gas would be supplying oil and gas refining
2 which would be supplying chemical which may be
3 supplying the pulp and paper industry.

4 Again, rubber would be supplying the
5 transport industry which would be supplying the paper
6 and allied industry. So these are all -- this is the
7 indirect impact that we are looking at.

8 There is also a third effect and that is
9 the induced effect. In all of these operations people
10 are earning wages and when they take their wages and
11 they go and spend it on boats and beer and whatever
12 else you buy with your money, mortgages, et cetera,
13 that third impact is called the induced impact. So the
14 three effects are what we are looking at when we are
15 talking about the multiplier.

16 THE CHAIRMAN: Exhibit 194.

17 ---EXHIBIT NO. 194: Sketch of multiplier concept.

18 MS. BLASTORAH: Q. And this is the same
19 multiplier concept that you described earlier?

20 MS. COKE: A. That's right.

21 Q. You can just leave that down, Ms.
22 Coke. I am not sure that your answer to my question
23 about the multiplier was picked up by the reporter.

24 A. I am sorry.

25 Q. I just asked you, is that the same

1 multiplier that you described earlier in your evidence?

2 A. That is correct.

3 Q. Okay.

4 A. Okay. So with that description of
5 what the concept is, I would like to just briefly
6 describe the two pieces of analysis that have been
7 referred to in the document, and just what the results
8 of those analysis were using this kind of analysis.

9 First of all, we have Roman Jacques study
10 which was done early in the '80s using the 1979
11 input/output model of Statistics Canada. So basically
12 assuming that the technology and the linkages in the
13 economy were as they were in 1979. He used what they
14 call a closed model and okay, I should have mentioned
15 this just when I was standing up.

16 Q. Maybe you could just explain what you
17 mean by closed model?

18 A. When you think about all of these
19 activities, one of the problems that occurs of course
20 is that some of this spending may not stay in Canada or
21 in Ontario. And what happens is that, therefore, you
22 lose the impact of that spending, primarily the induced
23 of the spending of the workers.

24 So in order to estimate what the impact
25 of the induced activity is from the initial demand, you

1 have to assume that the model is closed and, therefore,
2 that there is no leakage, what they call leakage, none
3 of the money escapes from the economy in question,
4 okay, so it just stays and it circulates within the
5 economy.

6 Q. And that is what you mean by closed?

7 A. That is what I mean by closed. And
8 as I understand it, Statistics Canada has not developed
9 a closed model for 1984, they only have an open model,
10 which means that you can only estimate the direct and
11 indirect activities going on as a result of a change in
12 demand on the forest products industry.

13 So that the two pieces of analysis that
14 we use, one of them uses an open model which has the
15 direct and indirect and induced impacts assessed, the
16 other uses an open model which only has direct and
17 indirect. So it underestimates, in a sense, the impact
18 of demand because it excludes any potential induced
19 effects.

20 Q. And you were about to give the
21 Board--

22 A. Yes.

23 Q. --a breakdown of the reports that you
24 used in your report.

25 A. All right. What Roman Jacques

1 found --

2 Q. Just before you go on, Roman Jacques
3 I think is referenced in your material?

4 A. He is. Roman Jacques is a federal
5 civil servant who works for the Canadian Forestry
6 Services, he is an economist with that group and he --
7 I think this work that he developed -- took about three
8 years for him to develop this work on the forest
9 products industry in Canada, and he also looked at the
10 forest products industry in Ontario.

11 And what he found after all of his
12 modeling was completed was that for every job created
13 in the industry; that is, in the forest products
14 industry, logging, forest, wood industries and paper
15 and allied, an additional 1.1 jobs was generated in the
16 economy of Ontario, that is indirect and induced jobs,
17 and an additional .7 induced and indirect jobs were
18 generated in Canada because, of course, he was using a
19 closed model and he could estimate both indirect and
20 induced, for a total of 1.1 plus .7, which is 1.8.

21 So you add -- for the combined effect you
22 add the direct job in the mill, the 1.8 indirect and
23 induced jobs, for a total of 2.8 jobs. And that is the
24 total combined impact of forest products activity, that
25 is called the multiplier, that is what the multiplier

1 is.

2 Q. So just to make sure that is clear,
3 when you say you have a multiplier of 2.8--

4 A. Yes.

5 Q. --that does not mean there are 2.8
6 jobs for every one direct job; is that correct?

7 A. That is correct. That includes the 1
8 direct job and the induced and indirect jobs as well.

9 Q. Okay, thank you.

10 A. So that is the total combined effect.
11 What he found, assuming the technology remained
12 constant and the linkages in the economy remained
13 constant, we took his estimate and we calculated, based
14 on a 72,000 labour force in the forest products
15 industry in '84, and we calculated that overall,
16 therefore, the 72,000 direct jobs translated into a
17 total employment direct, induced and indirect of about
18 200,000 jobs in this industry -- related to this
19 industry. So that was the final analysis of Roman
20 Jacques' work.

21 The second piece of analysis that we
22 looked at or work that we tapped into was a more
23 recent -- obviously Statistics Canada has been working
24 on their input/output model and they have revised their
25 tables and they now have 1984 tables, but they don't

1 have an open model, they only have -- they don't,
2 sorry -- that's right, they don't have a closed model,
3 they only have an open model. Therefore, they are not
4 able to show us what the induced impact is of forest
5 products activity.

6 Q. And that is that final bottom level
7 of activity?

8 A. That's right, the spending of the
9 workers employed by these mills that supply the pulp
10 and paper mill.

11 What they found was that for every job in
12 the forest products industry an additional 1.1 indirect
13 jobs were generated elsewhere in Canada; that is, in
14 Ontario and in Canada at large, for a total effect of 1
15 direct, plus 1.1 indirect, equals 2.1. Again, that is
16 the combined effect.

17 If we take the same employment base of
18 72,000 people employed in the forest products industry
19 and we apply this multiplier that gives us about
20 163,000 people whose livelihoods rely on this industry
21 or are linked with this industry to some extent.

22 The differences between the two, again,
23 are that one used an open model and the other used a
24 closed and, of course, they are based on different
25 input/output years; one is for '79 and one is for '84.

1 But I think the bottom line is excluding that induced
2 impact you can see that the impact is lower and that is
3 a very important point, that spending of the workers
4 makes a big difference.

5 I think in general what we can say about
6 this analysis is that if you just take the direct jobs
7 into consideration, it only tells a part of the story
8 and in fact a larger part of the story is the indirect
9 jobs which appear to be linked to the forest products
10 industry. It is more than the direct jobs.

11 MS. BLASTORAH: Mr. Chairman, I think
12 we are going to be sort of entering on to a new area
13 and if you were thinking of taking a morning break this
14 might be a good time.

15 THE CHAIRMAN: Very well. We will break
16 for 20 minutes. Thank you.

17 ---Recess taken at 9:55 a.m.

18 ---Upon resuming at 10:17 a.m.

19 THE CHAIRMAN: Thank you. Be seated,
20 please.

21 MS. BLASTORAH: Mr. Chairman, sorry, I
22 did indicate before the break that we would have copies
23 made of the map and I have done that.

24 I would like to file, if I may, the
25 interrogatory we received from the Forests For Tomorrow

1 group which is their Interrogatory No. 6 and the
2 question they asked us was: Please define northern
3 Ontario as used in paragraph 15 on page 24, and we did
4 that.

5 And Ms. Coke ran through some of that
6 information this morning when she was describing the
7 Ministry of Treasury and Economics regions, and with
8 that answer we attached a map indicating those. It
9 also indicates the northwestern and northeastern
10 regions she referred to this morning.

11 So I think the simplest thing would be to
12 simply file that interrogatory and the answer to it.

13 THE CHAIRMAN: All right. Exhibit 195.

14 MS. BLASTORAH: Okay. And that was the
15 Interrogatory No. 6 of the Forests For Tomorrow group.
16 (handed)

17 THE CHAIRMAN: Thank you.

18 ---EXHIBIT NO. 195: Interrogatory Question No. 6 posed
19 by Forests For Tomorrow.

20 MS. BLASTORAH: What was the exhibit
21 number, Mr. Chairman?

22 THE CHAIRMAN: 195.

23 MS. BLASTORAH: Thank you.

24 Q. When we left just before the break,
25 Ms. Coke, I think you just were finishing up talking

1 about the role of the forest products industry in the
2 Ontario context, as I recall.

3 MS. COKE: A. Okay. What I basically
4 was trying to do was just make a summary about the two
5 pieces of analysis, and I think that the last two
6 points were that one used an open model and, therefore,
7 it didn't estimate the induced impact; the other used a
8 closed model and was able to -- and they were based on
9 different I/O years, one was '79 and one was '84.

10 Q. I think you may have to speak a bit,
11 Ms. Coke.

12 A. Sorry. They were different years.
13 So essentially I guess the bottom line is that two
14 things can be said from this analysis.

15 First of all, if you just looked at the
16 direct employment effects in the industry, it tells
17 only part of the story and it tells the smallest part
18 of the story. The indirect effects are larger than the
19 direct effects in the economy.

20 And just in case it wasn't clear, we are
21 looking at the effects in Canada, as well as in
22 Ontario. You will notice in the Roman Jacques study he
23 was able to disaggregate the impact within Ontario and
24 in the other provinces. In the Statistics Canada
25 model, you can't really diaggregate, you can only look

1 at the impact across Canada.

2 Q. And that material is covered in your
3 report, I believe?

4 A. It is definitely covered in my
5 report, page 64, Figure 13 and -- basically Figure 13.

6 Q. Thank you.

7 A. Now, I would like to move to place
8 the Ontario forest products industry in the Canadian
9 context very quickly to describe what role we play in
10 Canada.

11 Q. Not too quickly.

12 A. Not too quickly. We produce about 16
13 per cent of national round -- industrial roundwood, and
14 I have just got a chart here.

15 In my document there are a whole series
16 of figures, Figures 16 to 22 on pages 84 to 103 and
17 what I have tried to do here to save time is summarize
18 the results of those figures, although they are
19 interesting on their own.

20 Q. And these are the pie charts that in
21 your report.

22 A. These are the pie charts which
23 basically say overall where does Canada -- where does
24 Ontario fit into Canada industry from an establishemnt
25 point of view; I mean, how many firms are engaged in

1 this industry; from a value of shipments point of view,
2 what is the value of the product coming out of the mill
3 door; from an employment perspective, obviously how
4 many people are employed; and from have a value added
5 perspective. And I have tried to summarize all of
6 these pie charts in one table here.

7 Q. And this information is all included
8 in your report on those pie charts?

9 A. It is indeed. On pages -- from 84 to
10 103.

11 MS. BLASTORAH: Mr. Chairman, we don't
12 know now have copies of this because the information
13 was all contained in the report. If you would like, we
14 could make copies of this summary available.

15 THE CHAIRMAN: I think that would be
16 helpful, to have the summary.

17 MS. BLASTORAH: Okay, we will do that
18 then.

19 MS. COKE: All right. Just to --

20 THE CHAIRMAN: Why don't we reserve an
21 exhibit number for it at this point.

22 MS. BLASTORAH: Okay.

23 THE CHAIRMAN: If you would produce it at
24 some convenient time.

25 MS. BLASTORAH: Okay.

1 THE CHAIRMAN: Exhibit 196.

2 MS. BLASTORAH: We will have copies of
3 that Monday morning.

4 THE CHAIRMAN: Very well.

5 ---EXHIBIT NO. 196: Pie chart.

6 MS. COKE: Without going through this in
7 detail because it is something that you may want to
8 look at in detail, I think the bottom line of this
9 table is that it would appear that about one-sixth of
10 the activity in Canada -- logging activity in Canada
11 occurs in Ontario; that is, if you take all of the
12 measures. About one-fifth of the wood industry
13 activity occurs in Ontario, and about one-third of the
14 paper and allied activity in Canada occurs in Ontario.

15 An additional point should also be made.
16 While making a strong contribution in the lower process
17 products area, for example, we produce about
18 1.5-billion of pulp and paper output in Canada, Ontario
19 plays a very special role in the higher value added end
20 of the industry as well.

21 For example, 68 per cent of other
22 converted paper products, 50 per cent of paper box and
23 bag, 53 per cent of wooden boxes and pallets, and 35
24 per cent of sash door and other mill work output comes
25 from this province. So we are a significant

1 contributor in the higher value added end of things.

2 MS. BLASTORAH: Q. Again, what do you
3 mean by higher value added?

4 MS. COKE: A. Value added being, I
5 guess, the value that the economy makes. If we look at
6 the total output of this industry, more is added in
7 Ontario. However, to the extent that higher value
8 added products are processed in Canada, they are likely
9 to be produced here for Ontario and for the rest of the
10 country.

11 Okay. The next point that I would like to
12 make is that exports buy product. In terms of Canadian
13 exports, obviously the largest component of our export
14 sector is in the --

15 Q. What page in your report?

16 A. Sorry, this is on page 25 -- Figure
17 25, page 109.

18 Q. And this chart hasn't been changed, I
19 believe?

20 A. No, it has not been changed.

21 Q. Okay.

22 A. What I would like to just basically
23 show that on this chart that the largest of Canada's
24 export products obviously is the paper and allied
25 group. 10.3-billion of our exports in 1985 can be

1 accounted for by this group. However, lumber at
2 4.6-billion also enjoyed a very important place in
3 Canada's exports, forest products exports in '85.

4 This chart is just the top half of Figure
5 27 in the document on page 112. I am afraid -- I guess
6 they couldn't get it all on one sheet. It is the most
7 important half of the page though because it shows that
8 in terms of markets, what -- our largest market
9 obviously from Canada is the United States, 77 per cent
10 of the export market -- Canada's export market,
11 according to this data, is to the U.S.

12 Q. Where is that shown on the chart, Ms.
13 Coke? There is a pointer on the table there if you
14 would like to use it.

15 A. So if we look at this chart basically
16 it divides the world into a number of markets.

17 Q. You will have to speak up a bit since
18 you are not using a microphone.

19 A. Okay. It divides the world into all
20 of our markets and it shows the per cent of the
21 Canadian market that these countries represent, and
22 Ontario's share of Canada. And so basically over 75
23 per cent of all shipments from Canada end up in the
24 United States. That is what the point is. So by far
25 the largest market for Canada is also by far the

1 largest market for Ontario as well.

2 Europe and Japan play, however,
3 significant roles as well. About 9 per cent of our
4 exports went to Japan -- went to Europe and about 6.4
5 per cent of our exports went to Japan, and this is all
6 shown clearly on the figure in my document.

7 Q. Okay. Now, when you say "our
8 exports", do you mean Canadian or Ontario?

9 A. I mean Canadian.

10 Q. Thank you.

11 A. Now, we will look at Ontario. As I
12 mentioned earlier there is always the problem when you
13 are looking at provincial exports, the bill of lading
14 problem, that if the good leaves the port in your
15 province it is attributed to your province very often.
16 So that is a problem.

17 Q. Sorry, the figure you have put up now
18 is the one on page 116 of your report?

19 A. Page 116, Figure 28.

20 Q. Just so that the Board can follow
21 along.

22 A. That's right. And so this data is
23 difficult to get. However, I did go to the Ministry of
24 Industry Trade and Technology and they developed a
25 special tabulation for me showing their best estimate

1 of what -- of Canadian forest product exports, how do
2 they originate, what comes from Ontario.

3 So that you can see there is a couple of
4 things that can be shown from this table. First of
5 all, obviously the largest -- in terms of dollar
6 amounts, the largest of our export products is
7 basically from the pulp and paper mills. So that's the
8 first point. In absolute terms, the pulp and paper
9 mills make a most significant contribution to Ontario's
10 exports.

11 The second point to be made from this
12 table is that Ontario's contribution in the further
13 processed product is very high. 60 per cent of
14 Canadian asphalt roofing, 56 per cent of miscellaneous
15 coated paper, 43 per cent of paper box and bag
16 manufacturing exports from Canada originated from
17 Ontario, or left to go to export markets through the
18 Ontario ports. So that's the point to be made in this
19 table.

20 Finally, we are going to take a look at
21 the regional aspects of this industry.

22 Q. And, again, this is I believe a chart
23 that is in your report?

24 A. This is an amalgamation of two charts
25 in the report, Figures 31 and 32, 31(1) and 31(2) on

1 page 120 and 121.

2 But before I launch into this area, it is
3 obviously important to discuss why we focused on the
4 north, why has this particular component been included
5 in the evidence, because the forest products industry
6 is in fact a province-wide industry. It has, however,
7 become strongly associated with the north and the north
8 itself is a special place and its economy has been
9 broadly described as quite different from that of
10 southern Ontario and the rest of the province.

11 What makes northern Ontario different,
12 obviously, as many people you ask will tell you a
13 different answer, but from my point of view it is
14 basically strongly resourced based which means that it
15 has perhaps a less diversified economy than southern
16 Ontario.

17 This resource dependency may make it more
18 dependent on the shifts in world prices for resources
19 product which, of course, as we know are subject to
20 wide swings, wide fluctuations or are highly cyclical.
21 And what that gives rise to is a boom/bust kind of
22 economic character where the economy will be overheated
23 or certain sectors may get overheated as demands for
24 those resource products are high, and once the demands
25 for those resource products are low, the economy

1 suffers a quite serious recession because they have got
2 a lot of eggs in very few baskets and I think that's
3 basically the characteristic.

4 Other things that make this economy
5 unique, of course, is it is fairly far from markets
6 which means it is far from places where -- if they made
7 products they could sell their goods, and that makes a
8 difference to their ability to compete in those large
9 markets. It also means they are a long way away from
10 labour pools and from skilled labour pools. It means
11 they may have more trouble than other areas in holding
12 on to their population and specifically to their youth,
13 to attracting capital and to entrepreneurs.

14 Finally, I guess from a government
15 perspective, they are very costly to access in terms of
16 roads and infrastructure, schools and services. The
17 bottom line in all of this is that those manufacturing
18 jobs that can sustain are very important to the region.
19 I guess that's why that has been included in this area.

20 Q. You may have to speak up a bit, Ms.
21 Coke, it sounds like we have got some competition
22 again.

23 A. I am sorry, okay. I will get that
24 guy at lunch.

25 Okay, so the distribution of activity.

1 So how important is forest products activity to the
2 north and to the -- and so what we did was I basically
3 took two tables which show value added, and what we
4 have done here is we have compared from the top table,
5 the total amount, total manufacturing value added by
6 the region, by central Ontario, compared to the value
7 added in that region related to the forest products
8 industry.

9 Now, these tables are graphs of data
10 which is also in the document, and I think that that
11 data is in the appendix to the document, appendix --
12 and it is 31, Table 31 in the appendix. So this data
13 gives the basic interpretation of that data in a
14 graphical point of view.

15 MS. BLASTORAH: And that is found at page
16 157 of the witness statement, Mr. Chairman, that
17 appendix.

18 MS. COKE: The northeast --

19 MS. BLASTORAH: Q. Sorry, again, these
20 regions that you are referring to when you say central
21 east --

22 A. These are the treasury regions.

23 Q. And those are the ones that are shown
24 on the map that has been filed?

25 A. That's correct. Okay. So what we

1 are looking at is manufacturing value added, and I am
2 just talking about value added in the wood industries
3 and the paper and allied industries group. Okay.

4 We are talking about manufacturing value
5 added, total value added in central Ontario compared to
6 the forest products industry. So basically that's what
7 we are looking at.

8 And as you can see, in central Ontario
9 the forest products industry, because of its very
10 diverse nature and because of all the other things that
11 are going on in central Ontario, is not a large share
12 of central Ontario's value added.

13 Q. Now, I see you have coloured this
14 diagram. It is not colored in the witness statement?

15 A. No, it is not.

16 Q. But --

17 A. This is --

18 Q. The total column on the central --
19 over the heading: Central --

20 A. Is value added for all manufacturing.

21 Q. Okay. So the taller column that we
22 see there is all value added for all manufacturing?

23 A. For all manufacturing.

24 Q. And the smaller block then represents
25 just wood industries and paper and allied?

1 A. That's right. So you can see in the
2 northwest and in the northeast it is a very, very
3 important part of the story; whereas, it becomes less
4 important in the other sub-regional economies of the
5 province.

6 Then taking the same measure and looking
7 within those regions. If we were to look at all of the
8 value added, it is basically these columns shown out.
9 We can see that 83 per cent of all value added in the
10 northwest and 35 per cent of all value, manufacturing
11 value added in the northeast; that is of everything
12 that has been produced in those economies in the
13 manufacturing sector, that ties to the forest products
14 industry.

15 So there is only about 15 per cent of
16 manufacturing value added in the northwest that's not
17 tied to the forest products industry and there is about
18 65 per cent of manufacturing value added in the
19 northeast which is not tied to the forest products
20 industry. So it is terribly important in those areas.

21 Q. Again, that bottom chart is the one
22 on page 121 of the witness statement?

23 A. That is correct. As wouldn't be
24 surprising, this is the other side of the story. Well,
25 we looked at employment -- we looked at value added,

1 now let's look at employment. How important is forest
2 products industry employment to each of these
3 sub-regions. And, again, what we have is we have
4 employment in all manufacturing industries in central
5 Ontario, employment in manufacturing industries related
6 to wood and paper and allied products.

7 Q. And, again, these are charts that are
8 in your report?

9 A. That's right. They are on pages 123
10 and 124 of the report and they are also in the appendix
11 as Figure 33.

12 Q. Okay. And there haven't been any
13 changes--

14 A. None at all.

15 Q. --to this material?

16 A. This is correct.

17 MS. BLASTORAH: And the Appendix 33 is at
18 page 158 of the witness statement, Mr. Chairman.

19 MS. COKE: So -- and the story is very
20 much the same. When we are looking at employment in
21 the northwest and the northeast, a significant
22 proportion of this employment is directly tied to the
23 forest products industry.

24 In percentage terms it is just about the
25 same thing. 82 per cent of all manufacturing jobs in

1 the northwest are directly tied to the forest products
2 industry, about 36 per cent of all manufacturing jobs
3 in the northeast are tied to the forest products
4 industry. So its importance to the north is absolutely
5 undeniable. But it is also present in every other
6 region of the province.

7 So finally, as I mentioned at the
8 beginning, while you can break the data down to a
9 sub-regional level, there are very few sources, if any
10 sources, at the community level and so what we did was
11 we undertook a bit -- just a bit of research where we
12 looked at Scott's Industrial Directory and the Ontario
13 Municipal Directory and we said: Okay, how many people
14 live in these towns in the north, and how many and what
15 firms are reported, what forest products firms are
16 reported in these towns and how many people do they
17 employ?

18 We just did a simple comparison and we
19 said: Okay, so where are the jobs located in these
20 communities in the north. And what we found was two
21 things; that is, several communities in absolute terms
22 there are a lot of jobs tied to the --

23 MS. BLASTORAH: Sorry, Mr. Chairman, this
24 is at page 137 of the witness statement, it is Figure
25 40.

1 MS. COKE: Figure 40. So clearly Thunder
2 Bay to -- in many of these communities there are more
3 than a thousand people in each of these communities in
4 absolute terms that are reported as employed in the
5 forest products industry.

6 The other point is, of course, in many
7 smaller communities the proportion of people who are
8 reported as employed in the forest products industry
9 exceeds 50 per cent of the population.

10 So basically what we identify, for
11 example, Long Lac, Red Rock, Nairne Centre, and some of
12 these other -- Hudson as being communities where a
13 disproportionate, more than 50 per cent of the
14 population -- if you just took it compared to
15 population, more than 50 per cent of the population
16 would appear to be employed in the forest products
17 industry located in those communities. So,
18 essentially, the importance of that activity to the
19 life of that community is obvious.

20 So what basically have I said in summary.
21 I have talked about this industry as being fairly
22 stable, that contributes to Ontario's output in
23 employment and both directly and indirectly through its
24 linkages to other economic activities in Ontario and
25 Canada; that there are a significant number of people

1 employed directly in the industry and more employed in
2 related industries and, of course, in the public sector
3 and in industries not called forest products industries
4 such as furniture and fixtures; that it is a highly
5 differentiated industry based on its size and its
6 products and its markets; Ontario holds an important
7 position in the national sector and it contributes
8 especially in terms of exports.

9 And to the extent that Ontario supplies
10 Canada with further processed goods, it in fact also --
11 this means that we are also saving exchange because we
12 are -- import replacement activity is what we are
13 actually undertaking. While unique in the province,
14 having a province-wide presence, it is clearly very
15 significant in terms of its presence in the north and,
16 most importantly, it is the main stay of many of the
17 communities in the northern region of Ontario.

18 Q. Ms. Coke, if I could just ask you a
19 couple of questions before you sit down. This table
20 that you have up on the screen, Figure 40, you have
21 indicated as a per cent of population--

22 A. Yes.

23 Q. --the employment in some of these
24 communities. Would that be the entire population of
25 those towns?

1 A. That is the entire population of
2 those towns as reported by the Ontario Municipal
3 Directory in the year that I used which was '85.

4 Q. So I understand then that that would
5 take into account children?

6 A. Absolutely.

7 Q. And unemployable people?

8 A. We could have compared it to
9 households, but I wanted to be conservative and if you
10 assume that one person in the household works, this
11 is -- if you take it to households, some of these
12 percentages come up to about 80 or 90 per cent of
13 households.

14 Yes, all children, you know, unemployed,
15 elderly, retired people who may be living with a
16 family, everybody that lives in that community is
17 reported as part of that.

18 Q. So I take it then that these
19 percentages, as you have indicated, would actually be
20 much higher than 50 per cent and this is really a very,
21 very conservative estimate of the impact of the
22 employment?

23 A. That's correct. If you compare it to
24 population, you are comparing it to the largest
25 universe you could in that community. That is right.

1 Q. And one other question, just in your
2 concluding remarks there you indicated that the
3 industry is stable. Did you mean overall or by sector
4 or--

5 A. Okay.

6 Q. --could you just define?

7 A. Overall, as we have shown the
8 employment and value added in the industry, employment
9 has remained stable overall. Yes, there have been
10 shifts, there have been increases in employment in the
11 wood industry side and there have been decreases in
12 employment in the paper and allied, but overall the
13 employment has remained stable over the 70-85 period
14 and output has grown in nominal terms, yes, that's
15 correct.

16 Q. Okay, thank you.

17 A. Okay.

18 Q. Mr. Duncanson, I understand that Dr.
19 Andersen and yourself were retained by the Ministry of
20 Natural Resources to prepare the second report which
21 appears as Document No. 2 in the witness statement; is
22 that correct?

23 MR. DUNCANSON: A. Yes, that is
24 correct. Dr. Andersen and I were hired as independent
25 consultants to assess the investment climate facing the

1 forest products industry.

2 Q. And that is the report found at page
3 160 of the witness statement?

4 A. That's correct.

5 Q. And who authored the actual report
6 that is in the witness statement?

7 A. Dr. Andersen and I cooperated in its
8 entire preparation; however, Dr. Andersen contributed
9 to sections dealing with demand and demand forecast. I
10 researched the factors affecting the competitiveness of
11 the industry, as well as the factors affecting the
12 investment decision.

13 Q. And I see that the report included in
14 the witness statement is broken down into three
15 principal sections. Why did you divide your report in
16 that way?

17 A. In order to assess the investment
18 climate facing the forest products industry, it is
19 necessary to examine the factors affecting demand for
20 the industry's products, the factors affecting the
21 competitiveness of the industry, and also the factors
22 which drive the industry's investment decisions.

23 Q. And when you say investment
24 decisions, what do you mean by that?

25 A. This would be capital expenditures,

1 expansion and, you know, the further development of new
2 product and installation, new product technology.

3 Q. I see. On what sources did you draw
4 in preparing this report?

5 A. We used a number of sources:
6 industry statistics, industry reviews, government
7 statistics, company annual reports. We relied very
8 heavily on industry interviews and also interviews with
9 industry associations.

10 Some of the major documentation or
11 statistical references, more specifically, were the
12 American Newspaper Publishers Association, The American
13 Paper Institute, the Canadian Pulp and Paper
14 Association, Statistics Canada, and the Canadian
15 Forestry Service.

16 Q. Okay. And when you said industry
17 reviews, what did you mean by that?

18 A. Newsletters, price lists, and
19 regularly published documentations both in Canada and
20 the United States.

21 Q. Was most of this information publicly
22 available information or was this something you had
23 special access to?

24 A. This was all public documentation.

25 Q. I see. Do you feel that the

1 information you obtained from these sources that you
2 have indicated provides an accurate representation of
3 the current position of the forest products industry?

4 A. Yes, we do. We feel it is very
5 accurate. We primarily relied very heavily on industry
6 input and we also strived to use the most recent data.
7 The most recent data that we used refers to primarily
8 1987 statistics, very recently published. We felt that
9 by using the most recent data it improved the accuracy
10 of our forecasts.

11 The industry, as you are aware, is a very
12 complex industry, very difficult for an outsider to
13 appreciate. There have been major changes in the
14 industry, in a lot of cases the documentation has not
15 followed these changes and there are many variables
16 affecting the absolute current position of the
17 industry. Therefore, we felt that the company
18 interviews assured accuracy of the information and also
19 we were able to obtain a general sense of the
20 industry's attitude.

21 Q. And I understand that you will in
22 fact be providing some even more recent information in
23 your presentation today?

24 A. Yes,, there are a number of the
25 tables that have actually been revised to include

1 information that has been available over the last two
2 or three months.

3 MS. BLASTORAH: And we do have copies of
4 anything that is new, Mr. Chairman, that we will be
5 providing to the parties.

6 Q. Dr. Andersen, if I could turn to you
7 now. I understand from Mr. Duncanson's comments that
8 the first section of your report deals with factors
9 affecting demand for the Ontario forest products -- for
10 Ontario forest products, and I understand this is the
11 section of the report that you had most input into.

12 MR. ANDERSEN: A. Yes, that is correct.

13 Q. And did Mr. Duncanson also cooperate
14 with you in this?

15 A. Yes. I should point out that Mr.
16 Duncanson also did participate in the development of
17 the projections in Section 2.

18 Q. Now, when you speak of demand in your
19 report, what do you mean by that term?

20 A. What we are talking about is demand
21 for the product. We are not talking about the demand
22 for wood fiber, the supply side, we are talking about
23 the demand side on the other end, the demand for the
24 product.

25 Q. So consumption essentially?

1 A. Consumption of consumer spending or
2 the consumption of newsprint, pulp and paper, that type
3 of product, the mill product.

4 Q. Were you able to draw any general
5 conclusions as to demand for forest products overall?

6 A. Yes. Our conclusions are that the
7 market served by Ontario pulp and paper will show
8 substantial growth in the 1990s.

9 We feel that the demand outlook for the
10 markets which are served by Ontario producers are very
11 favourable. However, the markets served by the wood
12 products sector we feel are not as promising. However,
13 when you are dealing with specific sub-components,
14 categories of products, ultimately the demand will be
15 determined by market factors and mill supply
16 capability.

17 Q. And when you say market factors, what
18 do you mean by that?

19 A. Market factors such as
20 competitiveness, market share.

21 Q. Thank you. I see that you have dealt
22 in your report with the demand for pulp and paper
23 products separately from the demand for wood products.
24 Why did you break down that section of your report in
25 that fashion?

1 A. That is because our report tends to
2 get to the underlying factors or variables which
3 ultimately affect demand and we believe that the
4 factors are really quite different for the pulp and
5 paper sector compared to the wood products sector.

6 Q. Will you please describe the factors
7 affecting demand in the pulp and paper and wood
8 industries and indicate why you feel those factors are
9 important and how you feel they will affect Ontario's
10 forest products in the future?

11 A. Yes, I would like to do that and I
12 would like to start out by referring to the map that we
13 have in our report on page 169. We have put that map
14 on the wall behind us as well for the convenience of
15 the Board and I would like to refer to that map because
16 I think it shows quite clearly the prime markets for
17 Ontario forest products, to look at this in both a
18 historical and a forward-looking perspective.

19 The basic point is that we are dealing
20 with markets that are very large and also very close at
21 hand. These markets are basically in our backyard and,
22 in addition, we are stating that these markets are
23 growing markets, they have been growing and they are
24 likely to continue to grow.

25 Q. Dr. Andersen, if I could interrupt

1 for just a moment.

2 MS. BLASTORAH: Mr. Chairman, is the
3 Board able to see that map up on the wall all right?

4 THE CHAIRMAN: We can see the map, I am
5 not sure we can read all of the words.

6 MS. BLASTORAH: Right. The print is a
7 little fine.

8 MR. ANDERSEN: The map hasn't been
9 changed from the report. What we have done is we have
10 drawn two semi-circles: one a 1,000 kilometre and the
11 other a 2,000 kilometre semi-circle. This is intended
12 to show our key markets. Basically the key markets are
13 within the 1,000 kilometre semi-circle and the centre
14 of the circle is somewhere between Sault Ste. Marie and
15 Thunder Bay, let's call it Wawa, that is the centre.
16 And from there we have drawn this map to give the
17 general perspective that we are talking about the key
18 markets being Ontario, of course, and the northeast
19 United States and the northcentral United States.

20 This is a large market. Including the
21 Ontario population, we are talking about a market today
22 which is composed of some 70-million people; a very
23 large market. And the importance of the United States
24 market is very key to all of this. With respect to
25 pulp and paper, the U.S. market absorbed 56 per cent of

1 Ontario's pulp and paper production in 1986.

2 The domestic Canadian market, primarily
3 Ontario, absorbed 41 per cent of Ontario's pulp and
4 paper production in 1986. And offshore markets only
5 comprised about 3 per cent of pulp and paper
6 production.

7 MS. BLASTORAH: Q. And I understand that
8 information is set out at page 168 of your report?

9 DR. ANDERSEN: A. Yes, that's correct.

10 Dealing with wood industries, the U.S.
11 market absorbed 25 per cent of Ontario wood industry's
12 production, and some 75 per cent of wood products are
13 directed to the domestic market, mainly Ontario.

14 In looking at this map and in focusing on
15 the key regions in the United States, the northeast and
16 northcentral regions, an important point to be made is
17 that this part of the United States is currently
18 experiencing a very strong economic stimulus at the
19 present time. This is because of the basic and
20 fundamental change that has been made in the exchange
21 value of the U.S. dollar since 1985.

22 And the impact of this massive currency
23 realignment has been to revitalize the U.S. industrial
24 sector in the specific regions that we are talking
25 about, the U.S. northeast and the U.S. northcentral

1 regions. It is very important point.

2 Q. Dr. Andersen, sorry, what is included
3 roughly in northeast and northcentral U.S., just so we
4 can -- maybe you could just show us on the map.

5 A. Well, let me go through the states,
6 specific states.

7 Q. Okay. If you don't have the specific
8 state right at hand, even if you could just give us a
9 general indication of what we are talking about on the
10 map. Is that equivalent to the darker orange area on
11 the map, the outer ring of the circle on the map?

12 A. We are talking about the inner ring
13 of the circle.

14 Q. Okay.

15 A. That is basically what is within a
16 one day's drive, a one day's trucking drive, we are
17 talking a thousand kilometres, a number of major
18 centres in the United States. We are taking in states
19 from -- we are looking at states such as New York, New
20 Jersey, Pennsylvania; we are looking at Ohio, Indiana,
21 Illinois, Michigan, Wisconsin, Minnesota, and so on.

22 Q. Thank you. Just so we have some
23 sense of where you are talking about.

24 THE CHAIRMAN: Ms. Blastorah, would you
25 have the witness mark that map as Exhibit 197, please.

1 MS. BLASTORAH: Okay. Do you have a
2 marker there, Dr. Andersen?

3 ---EXHIBIT NO. 197: Map of Ontario's key markets.

4 MS. BLASTORAH: Thank you.

5 Q. I am sorry to break your stride
6 there, Dr. Andersen. You were talking I think about
7 the strong economic stimulus that has taken place in
8 the northeastern and northcentral regions of the U.S.

9 DR. ANDESEN: A. Yes, that's correct.
10 The currency change has been a fundamental new
11 development since 1985 which is stimulating the U.S.
12 smokestack sector, if you want to call it that and the
13 impact on industrial production in these regions is
14 very important for the Ontario economy because of
15 Ontario's immediate and direct linkages in turn with
16 the industrial sector in the United States.

17 So this is providing an economic drive,
18 so to speak, that is very important and very
19 fundamental. So the proximity to key markets in its
20 own backyard, I believe, gives Ontario -- the Ontario
21 forest products industry a key advantage.

22 Q. And I understand we will be hearing a
23 little more about that from Mr. Duncanson later on?

24 A. Yes, that's correct. Mr. Duncanson
25 will talk in more detail about the competitive details

1 of transportation costs.

2 So to sum up. The demand for printing
3 and writing paper is favourable at the present time.
4 We have tried to make projections as to where we are
5 headed in the 1990s, looking at newsprint and printing
6 and writing paper, and one of the key considerations is
7 that U.S. consumption of printing and writing paper and
8 newsprint is closely related both to the economy, to
9 gross national product and also to demographic trends.

10 First of all, with respect to newsprint
11 and printing and writing paper, we find that American
12 consumption of this is closely tied to GNP and, in
13 fact, is growing faster than GNP. And, with your
14 permission, I would like to go to the projector and
15 indicate some of these trends that I think are very
16 fundamental and very important.

17 Q. Okay. And I understand that the
18 diagrams you are going to be putting up are diagrams
19 which are included in your material at pages 171 and
20 172?

21 A. Yes, that's correct. And there have
22 been no changes from those exhibits.

23 Q. Okay, thank you. This is the diagram
24 at 171, I believe.

25 A. Yes. This first diagram is on page

1 171 and just let me explain it to the Board briefly, if
2 I could. We are talking U.S. newsprint consumption in
3 volume. We have taken price out of this diagram and
4 what we have done is we have compared consumption in
5 the United States of newsprint and we have compared
6 that to gross national product, all with inflation
7 taken out and all measured on an index scale to be the
8 value 100 starting in 1975.

9 And going from 1975 to 1987 you can see
10 that real GNP; in other words, the economy -- the
11 growth in the economy with inflation taken out, you can
12 see the pattern, the growth, the up trend and you can
13 see that starting from a 1975 base that the line for
14 newsprint consumption has been growing faster than the
15 line for real GNP.

16 Q. And the newsprint consumption is
17 shown by the solid line on the diagram?

18 A. Yes, that's correct. The newsprint
19 consumption is shown by the solid line and the real GNP
20 is shown by the dotted line.

21 Q. And I see that there seems to be a
22 bit of a widening at the end there. What does that
23 suggest?

24 A. Well, what is happening is that the
25 year-to-year rate of growth in the economy is not as

1 great as the year-to-year rate of growth in newsprint
2 consumption taken over a trended longer term period of
3 time. So, in other words, we are seeing that news
4 print consumption has a growth premium relative to the
5 economy itself; it is growing faster than the economy
6 is.

7 Q. And so that gap is widening, is
8 that --

9 A. Yes, you can see that visually
10 because we start the diagram at 100 for both newsprint
11 consumption and real GNP in the year 1975, and you can
12 see that the growth of newsprint exceeded the growth of
13 the economy up to here, it kind of came back again, and
14 then going into the current year 1987, it has shown
15 this widening gap again.

16 So the point is that the GNP is growing
17 faster as shown by this gap that is showing between GNP
18 and consumption.

19 Q. Thank you.

20 A. I would like to, at this point, show
21 another diagram for U.S. printing and writing paper
22 consumption, and this second diagram is shown on page
23 172 of our report.

24 This diagram is very similar to the other
25 one that you have seen. We are talking about the

1 product in terms of volume consumption, prices have
2 been taken out but now we are looking at printing and
3 writing paper consumption in the United States compared
4 to, again, real GNP in the United States all on an
5 index number basis and index to be 100 in the year
6 1975.

7 And the interesting thing with this
8 diagram is that it shows a considerably stronger
9 premium of growth of consumption of printing and
10 writing paper compared to GNP. This is a very strong
11 response, very strong pick up of demand for this
12 product as the economy grows.

13 Q. And what impact would that have in
14 relation to, for instance, downturns or upturns in the
15 economy?

16 A. Well, the best way to forecast the
17 future is to identify the trend lines of the past
18 leading right up to the present and we have used these
19 relationships to try and make projects for the 1990s
20 and for the year 2000 on consumption and demand in the
21 United States for both newsprint and printing and
22 writing paper.

23 At this point I would like to show you
24 these two products in a very slightly different way. I
25 would like to show you consumption on a per capita

1 basis.

2 Q. And I believe this is a diagram on
3 page 170?

4 A. Yes, this diagram appears on page
5 170.

6 Q. And again there are no changes to
7 that?

8 A. That's right, there are no changes to
9 this diagram. And the point that I think is brought
10 out here is that consumption is rising on a per person
11 basis in both countries. What we have done here is
12 again start from 1975, but we are showing you the
13 kilogram consumption per person in the United States
14 and in Canada and you can see that consumption per
15 person is higher in the United States but the point
16 that we want to make is that the trend lines are
17 upwards in both countries.

18 The upper trend line appears to be
19 greater however in the United States.

20 THE CHAIRMAN: What is the impact of this
21 hearing having on those trend lines with all of us
22 here?

23 DR. ANDERSEN: Well, that's a very good
24 point because one of the things that seems to be
25 working underneath the surface here is that as the

1 Canadian and American economies mature, the services
2 sector becomes more important and the services sector,
3 I believe is one of the reasons -- the growth in the
4 services sector and its paper intensity is one of the
5 reasons that these trend lines are growing.

6 MS. BLASTORAH: It is nice to know that
7 we are counted as a service, Mr. Chairman.

8 DR. ANDERSEN: So these upper trends in
9 consumption, one the basic points here is that even if
10 population growth slows down, or even if population
11 growth stabilizes, it still means that the total
12 consumption will be rising if this rising trend on a
13 per capita basis continues into the future which I
14 think it will.

15 I will not show you the per capita
16 consumption of newsprint, although I will mention it to
17 you, we do mention it in the report. The trend is also
18 upward in newsprint consumption per capita. That rises
19 from 44 kilograms per person to 51 kilograms per person
20 in the United States over the period 81-1987.

21 Now, I would like to, with your
22 permission, discuss some of the forecasts that we have
23 made and put in our report. I would like to refer you
24 to the diagrams on page 186 and 187 for U.S.
25 consumption of newsprint and printing and writing

1 paper.

2 The first diagram that you are looking at
3 is really an extension of the first slide that I put up
4 because, again, we are looking at U.S. newsprint
5 consumption, we start in the period 1975. You can see
6 the historical trend line of real GNP and you can see
7 the volume index which starts again at 100 in 1975,
8 goes up to 1987 - that's basically the same diagram
9 that we showed you before - and then we have attempted
10 to make a forecast of GNP going ahead into the mid-90s
11 and out to the year 2000.

12 We have then tried to relate the past
13 trends of consumption in GNP into the future and we
14 have applied factors that suggest to us that we could
15 be looking at a 30 per cent increase in newsprint
16 consumption in the United States between the year 1987
17 and the year 2000, a 30 per cent increase over that
18 period.

19 The forecast I believe with respect to the
20 economy over this period is relatively conservative.
21 We have tried to be conservative in our approach. We
22 have based this forecast upon the notion that the U.S.
23 economy will only be showing a 2 per cent per annum
24 real GNP growth on a trend basis in the 1990s.

25 THE CHAIRMAN: Is that averaged in the

1 sense that the U.S. economy may experience a recession
2 or...

3 DR. ANDERSEN: We have tried to
4 incorporate that as best we could in the first part of
5 the 1990s and, again, in trying to be conservative we
6 have estimated or guesstimated, I suppose is the best
7 way to call it, that we will have two recessions
8 between now and 1995.

9 Specifically, we have incorporated the
10 notion that we will have a recession in 1990 and also
11 another recession in 1995. Now, that's a conservative
12 approach because we haven't have had a recession at the
13 present time since 1982 and we are saying that we are
14 going to have two recessions between now and 1995 and
15 then we are saying that after 1995 -- well, that's a
16 bit too far out to try and pinpoint recessions, so what
17 we have done is we have assumed that the economy is
18 going to grow at a 2 per cent per year rate from 1995
19 to the year 2000.

20 And that is quite a conservative rate
21 because if we look back in the past to see what rate
22 the American economy has been growing at, the number is
23 between 2.6 and 3.1 approximately. For example, over
24 the last 10 years, between 1977 and 1987, the U.S. real
25 GNP grew at an average per annum rate of 2.6 per cent,

1 that's a 10-year rate ending in '87. And the 20-year
2 rate, if you want to go back longer and get a bit of a
3 longer trend, that's also 2.6 per cent. And if you
4 want to go back 30 years, and go from 1957 to 1987, the
5 per annum rate it is 3.1 per cent. But, again, we had
6 faster growth earlier in the period -- in the early
7 post-war period.

8 So that is the notin upon which we have
9 based this forecast of a 30 per cent increase in U.S.
10 newsprint consumption between 1987 and the year 2000.

11 With your permission, I would like to also
12 put on the screen our forecast of U.S. printing and
13 writing paper consumption.

14 Q. And is this again something that's in
15 your report, Dr. Andersen?

16 A. Yes, that's right. This appears on
17 page 187 in our report. The diagram, as you will see,
18 is slightly different from what we have on page 187 and
19 I will explain that when I put the diagram up.

20 Q. Okay.

21 A. The difference, the numbers. The
22 numbers as you see on this exhibit refer to printing
23 and writing consumption in metric tonnes in the year
24 1987, the year 1992 and our range of estimates in the
25 year 2000. We have a high range and a low range

1 estimate.

2 Now, these figures are referred to in the
3 text on page 187 and we have put them on this screen
4 just for the convenience of the Board so you can relate
5 the forecast to some numbers. So the only difference
6 in this diagram is that we have put these four numbers
7 on the diagrams and the diagram is the same in all
8 other respects to what you see on 187.

9 And this diagram, again, is similar to the
10 first one that we showed you on printing and writing
11 paper consumption because it shows the historical
12 pattern starting in 1975, it shows you the growth in
13 the economy to 1987, it shows you the growth in
14 printing and writing paper consumption in volume terms
15 also to 1987 and you can see, again, the growth premium
16 of consumption to economic growth over this period.

17 Now, we have projected the economy into
18 the future as we did with newsprint consumption,
19 assuming the two recessions, assuming the 2 per cent
20 growth forecast from 1995 on. We have made two
21 assumptions in our forecast that give us a range. The
22 upper part of the range suggests that we could be
23 looking at a 65 per cent increase in newsprint
24 consumption between 1987 and the year 2000. The lower
25 part of the range suggests that we could be looking at

1 an increase of 40 per cent between 1987 and the year
2 2000.

3 The reason for these differences is that
4 we felt that with such a very pronounced increased
5 participation or an increased intensity of printing and
6 writing paper relative to the economy that we didn't
7 want to assume that that relationship is going to
8 continue into the future as it has in the past. So in
9 our lower forecast what we have done is we have assumed
10 that the ratio of printing and writing paper
11 consumption to GNP, which has been rising very rapidly
12 as you can see here - that ratio has been rising
13 because you start at 175 for both and you can see the
14 solid line rising - we have assumed that that ratio of
15 printing and writing paper to real GNP stabilizes in
16 the 1990s and that is where we get the lower increase
17 which is an increase of 40 per cent.

18 Q. Dr. Andersen, I think in your
19 comments that you at one point referred to newsprint
20 volumes. I take it that was a slip of the tongue, I
21 think all of these figures are intended --

22 A. I am sorry. Yes, all of my comments
23 with respect to this exhibit are printing and writing
24 paper consumption.

25 Q. Okay.

1 A. If I said newsprint, my apology. The
2 higher number which indicates the possibility of a 60
3 per cent increase over the period '87 to the year 2000
4 that's based on the notion that this rising share of
5 printing and writing paper consumption to GNP, that
6 this continues as it has in the past, that this
7 continues in the future.

8 So really we have presented a range of
9 forecasts for printing and writing paper consumption.
10 And to summarize what we are predicting, both for
11 newsprint and for printing and writing paper
12 consumption in the key U.S. market is we are
13 forecasting significant further growth.

14 I would like to comment at this point on
15 wood products. We have stated in our report that the
16 trends look different for wood products than they do
17 for newsprint or printing and writing paper and this is
18 because wood products are highly dependent on
19 residential construction and residential construction
20 in Canada and the United States is not a growth
21 industry. The growth trend, therefore, for wood
22 products appears different than from pulp and paper and
23 the growth trend does not appear favourable in the
24 1990s for wood products.

25 Our conclusion for the outlook for lumber

1 and building products is that demand could be capable
2 of being maintained in the 1990s. We feel that there
3 will be an offset to the expected declines in new
4 residential construction in the form of renovation,
5 residential renovation activity. So we are forecasting
6 that new residential construction activity is going to
7 be declining from current levels, but we are saying
8 that there is an offset or a partial offset coming from
9 residential renovation activity and the impact of that
10 on lumber and building products.

11 Q. Now, Dr. Andersen, when you say
12 partial offset, I take it you mean the actual decline
13 will not be totally compensated for by this renovation
14 market?

15 A. Yes, I am saying that residential
16 renovation could be an offset or a partial offset to
17 the weaker trend in housing, but we must remember that
18 renovation activity is not materials intensive, it is
19 more labour intensive than material intensive and it is
20 not clear what the participation of lumber will be in
21 the renovation activity that takes place in the years
22 ahead.

23 It may not be a complete offset for
24 lumber demand as new housing starts decline.
25 Nevertheless, there is a significant effect of

1 renovation on lumber demand and I might suggest that
2 there is perhaps a stronger linkage in the United
3 States between renovation and lumber demand than there
4 is in Canada because you see more frame houses in the
5 United States, for example.

6 That climate factor alone I think might
7 give a greater impact, a greater linkage. Last year,
8 in fact, American renovation activity did result in a
9 13 per cent increase for lumber demand for that
10 particular product for lumber. So the U.S. market
11 might be more of an offset than the Canadian market.

12 MRS. KOVEN: Are you assuming that U.S.
13 and Canadian suppliers are providing equivalent
14 products when you are looking at the wood products
15 industry generally?

16 DR. ANDERSEN: I suppose that part of our
17 evidence package is really to talk about the broad
18 macro-trends and the underlying forces in North
19 American that are going to be influencing the overall
20 demand and it is really John Duncanson, I think, that
21 is going to be talking about competitive factors --
22 competitive factors and the differences between various
23 segments in the market.

24 MS. BLASTORAH: Q. Is that correct, Mr.
25 Duncanson?

1 MR. DUNCANSON: A. Yes, both in the
2 lumber and the panel board categories, they are the
3 identical products, 2 X 4s, 4 X 8 sheets.

4 Q. And we will be hearing some more
5 about the particular products and so on in your
6 evidence, I take it?

7 A. Yes.

8 Q. Thank you.

9 MR. MARTEL: Does that include the
10 expected effects of the tariffs and the arguments that
11 we have had with the Americans in the last two years?

12 MR. DUNCANSON: Yes, definitely.

13 MS. BLASTORAH: Q. Okay. Dr. Andersen.

14 DR. ANDERSEN: A. So I want to summarize
15 with respect to my remarks on wood products. We feel
16 that longer term that unfavorable demographics,
17 unfavorable population trends are going to be at work
18 in both countries, both Canada and the United States
19 and in the key markets served by Ontario forest
20 producers.

21 We expect housing starts in the United
22 States in the 1990s to be flat, approximately at around
23 current levels. Currently the outlook seems to be that
24 this year we will have 1.45-million housing starts in
25 the United States and we are really saying that we are

1 going to stay at about that level on a trend basis
2 through the 1990s. That's lower than last year. Last
3 year we had 1.6-million housing starts in the United
4 States. So we are saying that it is a flat outlook.

5 And, in fact, the Canadian situation
6 might be even a bit less favorable than the United
7 States. In Canada we have housing starts up to July
8 of this year and for the first seven months of the year
9 our housing starts have come in averaging around
10 210,000 units at annualized rates for the first seven
11 months. And the forecast for Canada in the 1990s is
12 that housing starts are going to decline to a range of
13 somewhere between 157,000 starts and 202,000 starts.
14 So that is down from current levels.

15 And these declines, as I said in both
16 Canada and the States, reflect the demographic need for
17 housing and the point is with an age population, the
18 demographic need for housing isn't as great as it has
19 been in earlier post-war decades.

20 I would like to, because we are talking
21 about housing, also comment on the cyclical nature of
22 the industry. We have been talking about longer term
23 trends, where we are going in the 1990s. I would like
24 to at this point refer to a diagram which is on page
25 179 of the evidence package, if I could.

1 What I have done here is to look at the
2 cyclicalities in the wood products industry using a
3 diagram which shows per capita, per person consumption
4 of softwood lumber in the United States. And here we
5 are looking at a number of board feet per American.
6 And you can see the very pronounced fall-off in the
7 1980 and 1982 recessions. In fact, there wasn't a
8 recovery at all in 1981. The 1980 recession led to
9 lower levels in 1981 and ultimately to the very low
10 level in 1982 which was very far below the levels in
11 1977 and 1978.

12 So the point that I would like to make
13 here is that the wood products industry is very
14 cyclical and I think that's a fact of life that is
15 going to continue in the future. What I would like to
16 show as well is the cyclicalities in printing and writing
17 paper.

18 Q. Just before you go onto that Dr.
19 Andersen, could you just comment on the impact of
20 interest rates on this?

21 A. Yes. The demand for softwood lumber,
22 the prime factor between this demand, housing activity
23 and housing is the most sensitive sector in the economy
24 to interest rates. Interest rates are determined by a
25 number of factors, but basically interest rates are

1 what cause recessions and you can see the spin-off
2 effect on the product.

3 Q. Thank you.

4 A. And with your permission I would like
5 to go back and discuss the cyclicalilty on the printing
6 and writing paper.

7 Q. This is the chart we saw before?

8 A. Yes, you have seen this before and
9 the reason I am putting it up again is because I want
10 to show cyclicalilty again on the basis of per capita
11 consumption.

12 Q. And this is the chart on page 170?

13 A. Yes, it is the chart on page 170 and
14 we are looking at it before with respect to the upper
15 trend in per capita consumption and at this point I
16 would like to focus in on the recession period 1980,
17 1982 in this diagram.

18 And the point is that, yes, there were
19 declines in consumption on a per person basis in the
20 United States in the 1980-1982 period, but it was more
21 of a leveling out rather than the catastrophic decline
22 we saw in the wood products demand.

23 In Canada we can see basically the same
24 pattern as in the United States. There is a bit more
25 weakness though. Looking at 1982, for example in

1 Canada, there was a bit of a pronounced dip that wasn't
2 shown in the United States for the 1982 recession.
3 And I attribute this to the fact that the 1982
4 recession had such a serious impact in Canada, it was
5 the first real recession that we really had in the
6 post-war period and, as a result, there was a very
7 great shakeout in Canada that was proportionally
8 greater than in the United States in the economy at
9 large.

10 Going back to then the most cyclical
11 sector, I just want to wrap up on that by saying that
12 housing is so extremely variable. Housing starts so
13 far in the 1980s have averaged 171,000 units per year
14 in Canada. 171,000 units per year from 1980 through to
15 1987. That's the average of those years.

16 THE CHAIRMAN: Does that include, Dr.
17 Andersen, multiple housing?

18 DR. ANDERSEN: Yes, that does. That
19 includes both single-family as well as multi-family,
20 multi-family being either rental or ownership type
21 condominium. So that is the whole total. When we say
22 housing starts, you really think of a home with a front
23 door and a driveway and so on, but it does include the
24 highrises and the rental units as well, it is the whole
25 works.

1 MS. BLASTORAH: Q. And is there any
2 difference in consumption between those two types of
3 housing?

4 DR. ANDERSEN: A. Yes, we find that the
5 demand for lumber is greater with the single-family
6 houses than it is with the highrise or condominiums or
7 apartment type.

8 MR. MARTEL: Is that meeting demand or is
9 demand, if I understand it correctly, is not being met
10 in the housing market if one looks at Toronto, for
11 example.

12 DR. ANDERSEN: Yes.

13 MR. MARTEL: How far short of demand are
14 we falling? Did you look at that to determine whether
15 there was a market there or not?

16 DR. ANDERSEN: Yes. I think in the
17 housing market we are falling short of the right kind
18 of housing. I think that we are falling short of the
19 low income and the medium income housing and I do worry
20 that in total we may have built more units than we need
21 both last year and this year and much of it, I think,
22 has been speculation with people speculating on
23 condominiums and looking for short-term capital gains.

24 But what it is doing is it is adding to
25 the housing stock at a rate that I think is well above

1 the underlying population needs.

2 MR. MARTEL: Except it is in the wrong
3 area?

4 DR. ANDERSEN: It's in the wrong area,
5 exactly; there is too much high income, and there is
6 not enough low and medium income housing.

7 So my point is that in Canada with starts
8 we are looking at the 1980s average out at 171,000
9 units per year but an average doesn't tell you that
10 much. You know, you can drown in a lake that has an
11 average depth of six inches. You have got to look at
12 the peaks and valleys and the low in housing starts in
13 the 1980s has been 126,000 units in the recession year
14 and the high was last year with 246, so the average is
15 171 and yet you are talking about 126 at the low in '82
16 and 246 at the high last year.

17 And, in summary, looking forward to the
18 future, we are saying that in general we think that
19 wood product demand can be about maintained, but we are
20 not giving numbers in our report, we are saying that we
21 think that the renovation activity is going to be an
22 offset, but we are suspicious that the wood impact of
23 renovation is somewhat speculative and we feel
24 renovation tends to be for -- largely for labour
25 intensive type activity.

1 I would finish by adding to that point
2 that the renovation impact on wood might be greater in
3 the United States. I would also like to finish by
4 pointing out that there is a need for renovation in the
5 United States because the housing stock is becoming
6 relatively old. 52 per cent of American - and now here
7 I am talking about single-family houses rather than
8 apartments and so on - 52 per cent of American
9 single-family houses were built before 1960, 52 per
10 cent.

11 So there is a substantial, I think, a
12 potential here for renovation activity and also for new
13 construction. Even though it is declining, I think, or
14 looking flat in the future, the average size of a new
15 single-family home has been steadily increasing in the
16 United States and especially in the northeast which is
17 a market of importance for Ontario.

18 MS. BLASTORAH: Q. Dr. Andersen, at page
19 171 of the witness statement you say that Ontario's
20 market share of U.S. consumption has dropped in recent
21 years. Why do you say that?

22 DR. ANDERSEN: A. Yes. Here we are
23 talking about newsprint which is the key Ontario
24 product going into the U.S. market, so that is a very
25 important question, it is our key product going into

1 the U.S. market, what is happening to market share.

2 Canada supplies 58 per cent of U.S.
3 newsprint consumption and there has been a loss of
4 market share of this key product but in a relative
5 sense, and that is what I would want to emphasize.
6 In 1981, the United States consumed in total
7 10.3-million tonnes of newsprint, 10.3-million tonnes.
8 Canada supplied 60 per cent of this and Ontario
9 supplied 15 per cent of the 10.3.

10 Now, in 1987 U.S. consumption was up
11 quite significantly, up to 12.3-million tonnes of
12 newsprint, those are metric tonnes, Canada supplied 58
13 per cent and Ontario's share had dropped to 13 per
14 cent. So there was a decline in relative terms.
15 However, you have got to remember that this market is
16 large and it is growing significantly and it means that
17 we are getting a smaller share of a growing market.

18 So if you put this then into absolute
19 terms, the smaller market share in relative terms still
20 allows actual Ontario exports to increase from
21 1.57-million tonnes to 1.63-million tonnes over this
22 period. So it is a smaller share relatively of a
23 larger market and Ontario is still making gains in a
24 positive or absolute sense in terms of exports.

25 MR. MARTEL: What is your analysis of the

1 decline, though?

2 DR. ANDERSEN: My feeling is that it has
3 not netted a decline in operating rates for Ontario
4 newsprint mills. The operating rate last year running
5 around 95 per cent, basically the same or slightly
6 higher than in '81.

7 My analysis is that the market is large
8 in the United States, much larger than Ontario capacity
9 and it has been growing significantly and that Ontario
10 mills have not had the capacity, the mill capacity to
11 supply the strong growth in this U.S. market, that the
12 gap, so to speak, has been filled by other suppliers,
13 mainly southern U.S. producers.

14 So what I am saying is that it is a large
15 market and we have not seen our operating rates
16 decline. We have seen capacity/supply limitations at
17 the mill level allowing other producers to come in and
18 fill that growth gap in the United States.

19 MS. BLASTORAH: Q. Mr. Duncanson, maybe
20 you could just define for the Board what we mean when
21 we are talking about operating rates, the term just
22 used by Dr. Andersen?

23 MR. DUNCANSON: A. Okay. The textbook
24 definition of operating rates is the mill capacity -
25 sorry, I am speaking behind my colleague here - is the

1 rated mill capacity, how many tonnes per day, how many
2 tonnes per year the mill, the machinery can physically
3 produce, basically divided by the production that is
4 produced. So they are working at -- when they are
5 working at hundred per cent of capacity there is no
6 downtime.

7 Q. Thank you. And, Dr. Anderson, you
8 indicated that you felt those operating rates had not
9 been marketly affected by the decline in market share;
10 is that correct?

11 DR. ANDERSEN: A. Well, yes, of course
12 they were affected by the recession, but operating
13 rates have been climbing since the recession and at the
14 present time 1987, looking at 1987 numbers, we are
15 approximately back where we were before the recession
16 in '81, in fact some are somewhat higher.

17 Q. And could you give us a number for
18 that?

19 A. The number that I am looking at is 95
20 per cent operating rate in 1987 and a 94 per cent
21 operating rate in 1981.

22 Q. So that is 95 and 94 per cent of
23 capacity.

24 A. That's right.

25 Q. Okay, thank you.

1 THE CHAIRMAN: Dr. Anderson, do labour
2 problems on both sides of the border impact on these
3 forecasts at all, or are they somehow taken into
4 account, potential labour problems, for instance if the
5 industry shuts down for periods of time?

6 DR. ANDERSEN: Yes, on the forecast of
7 consumption?

8 THE CHAIRMAN: Yes.

9 DR. ANDERSEN: Certainly labour problems
10 and strikes and so forth will cause production
11 stoppages, but I am looking really beyond that at what
12 is the demand for the product. Who supplies the
13 product is something else, that is something that Mr.
14 Duncanson is going to talk about in terms of his
15 competitiveness factor.

16 THE CHAIRMAN: So the market share may be
17 affected in an adverse way if the Canadian labour scene
18 is more volatile, if I can put it that way, than say
19 other countries' labour scene?

20 DR. ANDERSEN: Yes. Well, we are looking
21 at our analysis over kind of a reasonably broad period
22 of time, broad expanse of years and, you know, in terms
23 of my comments on a relative loss of market share,
24 referring to 1981 versus 1987, and I think my point
25 that I have made is that it is really I think the

1 supply/capacity at the mill level and the strong growth
2 in the U.S. market witnesses - the other diagrams that
3 we are talking about - the Canadian -- or the Ontario
4 producers not being able to fill that growth gap in
5 demand.

6 MR. MARTEL: How much is the influence of
7 the new forests in the southern states having in view
8 of the fact they can grow much quicker apparently and
9 so on, the position here in Ontario, vis-a-vis the
10 American market?

11 DR. ANDERSEN: Yes. I think that
12 certainly we are getting into areas of technology and
13 competitive advantage here, and that is something that
14 I would like Mr. Duncanson to talk about.

15 But based on my general information, that
16 is something that has happened, that the southern U.S.
17 producers between 1981 and 1987 have been moving into
18 supply that growing U.S. market and their growth in
19 supply of product has been greater than the Ontario
20 growth.

21 MR. MARTEL: And effectively cost of
22 labour then is very important?

23 DR. ANDERSEN: Oh, yes. Now, Mr.
24 Duncanson is going to be talking about all of those
25 competitive factors, southern transportation costs,

1 labour costs, technology, and so on.

2 MS. BLASTORAH: Q. One last question,
3 Dr. Anderson. We have heard from the witnesses in
4 Panels 3 and 4 that it is difficult to make long-term
5 predictions with regard to the future of the forest
6 resource base as opposed to the industry.

7 What do you feel is the value of demand
8 projections and how much can we rely on them?

9 DR. ANDERSEN: A. Yes. I think that is
10 a point that I would like to finish off with because we
11 hear lots of economists' jokes, should you be listening
12 to anybody's forecasts, one economist says one thing
13 and another economist says something else.

14 My point is that it is very difficult to
15 be specific about specific years. In projecting gross
16 national product, I have tried to build in two
17 recessions between now and 1995 to be conservative and,
18 yes, a recession is possible in 1990 and another one is
19 possible in 1995. But, believe me, if we really knew
20 when recessions were going to happen, we would never
21 have them in the first place.

22 So what we are really trying to do is
23 identify trends. We are trying to get a trended
24 long-term perspective on where things are going and
25 there is a relationship between GNP and newsprint

1 consumption or printing and writing paper consumption,
2 and really we are trying to take the trends of the past
3 and trend them into the future and try and do so in a
4 reasonable way.

5 In making a trended forecast of GNP,
6 there are some systematic factors that determine how
7 much GNP can grow, basically population growth and
8 labour supply is very important to that and so is
9 productivity, your output per worker. So we do have
10 underlying factors that indicate the economy will
11 continue to grow.

12 What we have done is we have been
13 cautious, we have not said that the economy is going to
14 continue to grow at the rates of the last 10 or 20 or
15 30 years, we have chosen a rather cautious 2 per cent
16 rate of growth in the U.S. economy in the 1990s, but it
17 is a trended rate. The actual level of GNP in the year
18 1995 I am sure is going to be different from the plot
19 that you saw on that diagram.

20 Q. And does the cyclical nature of this
21 particular industry have any impact on your ability to
22 make those kinds of predictions?

23 A. The cycles are going to be there and
24 the industry is highly cyclical. I would like to point
25 out to you that the cyclicity is -- the cyclicity

1 has a number of dimensions. The cyclicalality does not
2 just involve production, it also involves profitability
3 because the cyclical effect on profitability can be
4 much more pronounced than the cyclical effect on the
5 level of production itself.

6 And Mr. Duncanson in his sections of our
7 evidence dealing with financial matters, financial
8 health of the industry will be talking about the
9 cyclicalality in profitability.

10 Q. Okay. And is there any distinction
11 among the various sectors of the industry or are your
12 comments directed at the industry overall?

13 A. My comments, again, would emphasize
14 the cyclicalality in the wood products area. The
15 cyclicalality is not as pronounced on a production sense
16 in the pulp and paper sector, but yet it is pronounced
17 on a profit sense in the pulp and paper industry.

18 Q. Okay. Thank you, Dr. Anderson.

19 MS. BLASTORAH: Mr. Chairman, we are
20 about to start into Mr. Duncanson's evidence, would
21 this be a convenient time to break?

22 THE CHAIRMAN: How long do you intend to
23 be with Mr. Duncanson?

24 MS. BLASTORAH: I anticipate perhaps an
25 hour and a half at the outside depending on how many

1 questions we have, of course.

2 If we took perhaps a short lunch break I
3 think we would finish today. Actually, I would prefer
4 not to break Mr. Duncanson's evidence, if possible,
5 because it does all flow together and I think it might
6 be a little --

7 THE CHAIRMAN: Well, why don't we break
8 for lunch now instead of having another morning break?
9 We will take...

10 MS. BLASTORAH: If we took 45 minutes...

11 THE CHAIRMAN: Why don't we take 45
12 minutes and then try and finish off by two.

13 MS. BLASTORAH: And I think --
14 optimistically, I think we should be able to complete
15 direct evidence today.

16 THE CHAIRMAN: Very well. We will break
17 until 12:30.

18 ---Luncheon recess at 11:45 a.m.

19 ---Upon resuming at 12:35 a.m.

20 THE CHAIRMAN: Thank you, please be
21 seated.

22 MS. BLASTORAH: Mr. Chairman, just before
23 I go on to Mr. Duncanson, I would just like to make a
24 couple of little housekeeping matters.

25 First of all, on page 120 of the witness

1 statement there is a minor correction to the table
2 there. I know an errata list did go out after the
3 witness statement because apparently there was some
4 problems with descriptions of the terms, and I guess
5 this one was missed out. It should read billions of
6 dollars, not millions of dollars in Figure 31.1 which
7 is on page 120. Because that is -- I would like to be
8 correct in any event, but particularly because that was
9 one that we referred to.

10 And one other matter, I would just like
11 to come back to Dr. Anderson for one point of
12 clarification.

13 Q. Dr. Anderson, in your evidence this
14 morning you indicated with regard to the offsetting
15 effect of renovations in Canada and the United States,
16 you indicated that there would possibly be a greater
17 offset in the U.S. because of the amount of lumber used
18 there and I think you mentioned for framing of houses.
19 Would that account for the entire difference between --

20 DR. ANDERSEN: A. I think that I said
21 there are more frame houses in the United States
22 because of the weather. What I really meant to say was
23 that there is more -- there are more houses with wood
24 siding in the United States because of the weather.

25 We tend to have more brick houses than

1 the Americans, so it is really the siding that I'm
2 talking about.

3 Q. As opposed to the framing which would
4 all be included in both houses?

5 A. That's right.

6 Q. Okay, thank you.

7 Moving on to you, Mr. Duncanson. I
8 understand that you are going to give evidence in
9 regard to the next section of your report which deals
10 with factors affecting competitiveness in the Ontario
11 forest products industry?

12 MR. DUNCANSON: A. That's correct.

13 Q. And what factors did you identify in
14 that regard?

15 A. I broke it down into two groupings.
16 Basically, I looked at the various cost components, the
17 wood fiber, the energy required, the labour and the
18 transportation costs. I also identified and I will
19 discuss some of the external factors such as foreign
20 exchange rates, tariffs and capacity expansion.

21 Q. And when you say external factors,
22 what do you mean by that?

23 A. These are factors beyond the control
24 really of the particular mill or the producer.

25 Q. Okay. And, in general, what were

1 your findings with regard to the competitiveness of the
2 Ontario forest products industry?

3 A. On the whole, the forest products
4 industry in Ontario is competitive. On a delivered
5 basis, Ontario pulp and paper industry is quite
6 competitive with other Canadian mills and mills in the
7 United States and Scandinavia.

8 However, the wood products industry in
9 Ontario is faced with several major disadvantages which
10 do impede its competitiveness. Both the pulp and paper
11 and the wood industries have a definite transportation
12 cost advantage over B.C. and Quebec, the two major
13 Canadian competitors, competing regions, into Ontario's
14 major markets which Dr. Andersen has already
15 illustrated with the use of the map, and I will repeat
16 those, those are the Ontario market itself, the
17 northcentral and the northeastern regions in the United
18 States.

19 However, the higher cost that Ontario
20 has, it would be included in the wood section and the
21 labour, and those two cost factors are higher than most
22 of their competitors, competitors both in -- other
23 parts of Canada as well as in the United States and in
24 Scandinavia. These higher costs, plus the impact of a
25 stronger Canadian dollar today, have eliminated most of

1 the transportation cost advantage that Ontario
2 producers have.

3 Q. Where does energy cost fit into that,
4 Mr. Duncanson? Would that be on the positive side or
5 the negative side for Ontario producers?

6 A. Energy is basically neutral in this
7 case, we are competitive against some regions and less
8 competitive on other regions particular -- other
9 regions in Canada.

10 The wood products industry has an added
11 advantage. The big disadvantage, the diameter of the
12 wood in Ontario as we have heard in previous panels, is
13 considerably smaller than major competitors, primarily
14 the British Columbia mills. This disadvantage -- this
15 smaller diameter of wood limits the range of lumber
16 products that Ontario saw mills can produce, and
17 Ontario plywood mills for that matter as well.

18 This general factor in combination with
19 the 15 per cent export tax on softwood lumber shipments
20 to the U.S., puts the Ontario lumber industry at a
21 significant disadvantage to other regions in Canada.

22 Q. We have heard, Mr. Duncanson, that
23 newsprint is Ontario's single largest forest product
24 export, I think Ms. Coke indicated that in her
25 evidence. Is Ontario's newsprint industry competitive?

1 A. Yes, it is competitive, and at this
2 point I would like to do as my colleague has done and
3 move to the lecturn and use some overhead slides to
4 illustrate these points.

5 Q. Okay.

6 A. The newsprint, as we have recognized,
7 is the single largest forest products export from
8 Ontario. This slide, which is on page 190 of the
9 material, was drawn from a very extensive production
10 cost survey that was carried out -- has been carried
11 out several times now, but this is from the most recent
12 cost comparison study for newsprint, the product, by
13 Price Waterhouse Associates in conjunction with the
14 Forest Sector Advisory Council.

15 This was a very detailed report and what
16 I have done here is I have lifted the key cost factors
17 and illustrated the key -- the delivered costs of the
18 various producing regions in the world.

19 The Ontario figures were not included in
20 the Price Waterhouse study, those were derived through
21 intensive industry interviews that Dr. Andersen and I
22 were involved with in the preparation of this report.

23 Now, if I can turn to the cost components
24 on this table, just to give you some of the key points
25 here. These are all expressed in currency of the

1 countries, so we have got Swedish krona for the Swedes,
2 we have the U.S. dollar for the U.S. producers, and
3 Canadian dollars for both the Ontario and Canadian
4 producers.

5 What I have dealt with is I have built
6 these costs, the mill costs and the delivered costs
7 down showing the major components. As you can see from
8 the slide, the wood costs in Ontario are slightly
9 higher than in Canada but are considerably higher than
10 those in the United States. And using current exchange
11 rates, that \$93 (U.S.) works out to \$116. These are
12 all based on per tonne of finished product, so we are
13 comparing apples to apples, the only difference here is
14 the exchange rate.

15 Energy costs, as I mentioned before, in
16 Ontario are fairly favorable with Canada and extremely
17 favorable with what the U.S. producers are faced with.
18 That \$75 (U.S.) translates to be \$94 Canadian.
19 However, as I mentioned in my opening comments, labour
20 costs in Ontario are higher than the rest of Canada on
21 average and considerably higher than those in the
22 United States. \$67 (U.S.) translates to \$80 Canadian.

23 The other categories would include
24 chemicals and other material supplies, administrative
25 costs. That brings us down to the first bold line, the

1 mill cost and, as you can see, Ontario is competitive
2 with the other Canadian mills, only a \$3 difference per
3 tonne.

4 However, the U.S. mills are quite
5 competitive. The Swedish krona, I haven't translated
6 that, but if you divide the 2,432 you will see that the
7 Swedes are very uncompetitive compared to the North
8 American producers with the current exchange rates.

9 I have identified the corporate costs,
10 which are virtually in line from region to region. The
11 delivery costs, as you can see, Ontario mills have a
12 definite advantage over other Canadian mills. Now,
13 this is delivery into the prime markets. The Price
14 Waterhouse study was done by surveying actual mills and
15 asking them to supply the numbers that they used for
16 delivery costs. So those would be into the Ontario
17 mills, into their native or natural markets which we
18 have again identified on our map.

19 The U.S. producers, as you can see, have
20 a tremendous advantage transportation wise into their
21 major markets, but that will primarily be the southern
22 states, Atlanta, Georgia, state of Florida, big
23 population centres. If they were to -- and we have
24 shown in our report, if you start moving newsprint from
25 the southern states into Ontario's regions, the dollar

1 value goes up considerably and we have expressed that
2 in more detail in our report.

3 Therefore, we get a total delivered cost
4 into the natural markets of those producing regions of
5 515 for the Canadians.

6 Now, what I have done on the bottom
7 line --

8 Q. I believe that is for Ontario; isn't
9 it?

10 A. For Ontario, 515 for Ontario; 526 for
11 all of Canada and what I have done on the bottom line
12 is I have translated the -- converted the U.S. and the
13 Scandinavian, the Swedish producers delivered cost into
14 Canadian funds. So the U.S. mills have about a \$50 to
15 \$60 advantage per tonne and we in Canada, and
16 especially in Ontario, have about \$100 Canadian
17 delivered cost advantage over Scandinavians of which I
18 have used Sweden as the...

19 Q. What effect has the rise in the value
20 of the Canadian dollar relative to the U.S. dollar had
21 on the newsprint industry's competitiveness?

22 A. It has had an effect on the
23 profitability of the industry. As we pointed out
24 earlier, there is more demand than there is supply, if
25 you look demand in Ontario's major markets as to the

1 supply or the capacity of the Ontario producers.

2 . From this table you can develop a
3 sensitivity to the level of profitability of the
4 Canadian and particularly the Ontario producers. The
5 current list price for newsprint on a delivered basis
6 is \$650 U.S. per tonne.

7 In other words, the Canadian -- the
8 Ontario mills are producing -- are generating profits,
9 these would be pre-tax profits, in the order of about
10 \$280 Canadian per tonne.

11 As the dollar increases in value against
12 the U.S. dollar, it is actually down closer to 80-cents
13 I understand this morning, it has fallen considerably
14 over the last two or three weeks, but as the value of
15 the Canadian dollar appreciates against the U.S.
16 dollars; i.e., goes from 80-cents to 83 to 85-cents,
17 that level of profitability of the Ontario newsprint
18 industry decreases.

19 At 70-cents (U.S.), if you were to run
20 those delivered costs in the currency of country
21 through, you would find out that the Ontario and
22 Canadian producers price differential would be
23 eliminated completely and that the Ontario producers in
24 fact would be the lowest cost producers.

25 So I want to make it clear that if the

1 dollar strengthens, the Canadian dollar strengthens,
2 the Ontario mills are still profitable but not as
3 profitable.

4 Q. What is the impact of tariffs which
5 Mr. Martel asked about earlier on the industry's market
6 share?

7 A. Okay. I would like to bring up
8 another slide to answer this one.

9 Q. I believe this is the chart which is
10 given on page 195 of the material?

11 A. That is correct.

12 Q. And there haven't been any changes to
13 that chart, I understand?

14 A. No, there have not been any changes
15 to this chart. As you can see from this chart, which
16 is the tariff rates for forest products being shipped
17 from Canada into the U.S. - so this would include all
18 of the Ontario producers - the majority of Ontario's
19 pulp and paper products which are newsprint, kraft pulp
20 and some of your printing paper grades, particularly
21 groundwood printing paper, have had duty-free access to
22 the U.S. markets.

23 Q. Mr. Duncanson, you just used a term
24 and, again, it will be new to the Board, groundwood
25 printing paper. Could you explain briefly what that

1 means?

2 A. This would be -- newsprint is known
3 as a groundwood grade of paper, but newsprint in this
4 sense goes entirely into producing newspapers that we
5 read every day. Groundwood printing paper would
6 include grades of paper that are similar to newsprint
7 but have different end uses. The biggest end market
8 would be directory paper, telephone directory paper.
9 So if you can imagine what that feels like compared to
10 ordinary newsprint.

11 Q. Where does the term groundwood come
12 from?

13 A. In the production of newsprint and
14 these groundwood printing papers, they are using a
15 groundwood pulp furnish as opposed to a chemical pulp
16 furnish.

17 Q. Okay. And I am going to have to ask
18 you now to explain what you mean by furnish?

19 A. Furnish is the raw material, the
20 inbetween stage from the log to the piece of paper.
21 The logs are converted into pulp, which is the wood
22 fiber and then the water is removed from that pulp and
23 the sheet of paper, in most cases, should form.

24 Q. And I take it that groundwood pulp
25 and chemical pulp are produced differently?

1 A. They are produced differently,
2 different production system.

3 Q. Could you give us in a couple of
4 sentences what the difference is?

5 A. The groundwood pulps are produced
6 with little or no chemical process. It is literally
7 grinding the wood against a grindstone breaking down
8 the wood fiber. Chemical, in the chemical process or
9 what is known as the kraft process, we have several
10 examples in Thunder Bay which you can smell, uses a
11 chemical process to break the wood down as opposed to
12 the groundwood which grinds it.

13 Q. Thank you. Sorry to interrupt you
14 there.

15 A. It is okay. Carrying down the chart
16 you can see that book and writing paper, we have seen a
17 lot of that, an example is in front of everybody, is
18 probably one of the largest categories of paper. Some
19 of your corrugated paperboard, liner board have had
20 tariffs.

21 These tariffs that show up here in the
22 1988 column are the current tariffs. Under the Free
23 Trade Agreement between Canada and the United States,
24 these tariffs will be eliminated on these other grades,
25 eliminated even on waferboard.

1 However, I would like to point out to the
2 Board that the drop in the case of book and writing
3 paper from two and a half down to three, no tariff,
4 will not have a substantial impact on the industry when
5 you consider that that tariff was 22 1/2 per cent back
6 in 1967. So we have dropped from 22 1/2 down to 2 1/2.

7 I might add too, and I don't have the
8 table here, but we have made it available to one of the
9 interrogatories, which is the mirror tariff table,
10 product coming from the United States into the Canadian
11 domestic markets and it is identical to this. There
12 are one or two small exceptions where there may be a
13 higher duty on certain grades of paper, but basically
14 U.S. newsprint and pulp and groundwood printing paper,
15 if they ever thought they could find a market in Canada
16 and dislodge some of the Canadian producers, do come in
17 tariff free.

18 Q. Has that been the case for some time
19 or is that something --

20 A. That's been the case for some time,
21 as well. And, again, the tariffs on U.S. book and
22 writing paper were in the 22 per cent range back in
23 1967 and so that the removal of the current tariff
24 which is about 2 1/2 to 4 per cent is not going to mean
25 a steady stream of U.S. paper coming into Canada.

1 Q. Will you please describe for the
2 Board some of the recent capital spending activity that
3 has taken place within the industry?

4 A. I would like to refer to another one
5 of our tables, Table 200 in the book.

6 MS. BLASTORAH: This is the one on page
7 200, Mr. Chairman.

8 MR. DUNCANSON: This table outlines the
9 capital and the repair expenditures of the forestry in
10 Ontario. We have broken them down again into our three
11 major sectors: Logging, wood industries and the paper
12 and allied industries.

13 As you can see from this table, in the
14 five years ended 1987 there has been \$4.5-billion
15 expensed in Ontario on these three sectors. The
16 largest sector of course being the paper and allied,
17 probably the most capital intensive of all the sectors.

18 MS. BLASTORAH: Q. Mr. Duncanson, I
19 believe there are some changes to that table; is that
20 correct?

21 MR. DUNCANSON: A. Yes. The 1988
22 estimate which is supplied by Statistics Canada
23 includes revisions that were published a week or two
24 ago. So this is a very current updated table.

25 And you will notice the big difference is

1 that the total amount in 1988 that's forecast, or has
2 been announced really, to be built in Ontario has grown
3 from - sorry, I don't have the copy of the original -
4 but has grown to \$1.5-billion.

5 Q. I believe the previous number was
6 1.25-million?

7 A. So that over a three-month period it
8 has grown substantially.

9 Q. I do have copies of this revised
10 chart and I think I would like to give them out to the
11 Board and parties before you continue so they can
12 follow along.

13 MR. DUNCANSON: Okay.

14 THE CHAIRMAN: We better give this a
15 separate exhibit number. That will be Exhibit No. 198.

16 MS. BLASTORAH: That was Exhibit 198, Mr.
17 Chairman?

18 THE CHAIRMAN: That's correct.

19 ---EXHIBIT NO. 198: Revised Capital and Expenditures
20 Table at page 200 of Panel 5
 witness statement.

21 MR. DUNCANSON: I might point out on that
22 table as well, if you look at the history of the
23 capital expending that the Ontario industry has
24 maintained a fairly large capital expenditure program.

25 I would like to introduce a new table

1 that breaks this table down further and breaks it down
2 between the two elements, the capital and repair, and I
3 will put this up.

4 MS. BLASTORAH: Again, I have copies for
5 the Board and the parties, Mr. Chairman.

6 THE CHAIRMAN: This wasn't in the
7 material?

8 MS. BLASTORAH: This is a totally new
9 table.

10 THE CHAIRMAN: Exhibit 199.

11 ---EXHIBIT NO. 199: Table showing further breakdown of
12 capital and repair expenditures
(Exhibit 198).

13 MR. DUNCANSON: What this new table
14 illustrates is that the -- and, again, this is using
15 the most revised data, so the total line in 1988 is
16 equal to the summary table that was on Table 200.

17 If you look at the paper and allied
18 category, the repair portion of the capital, repair
19 capital expenditures has been very consistent. There
20 is a great amount of money that is required on an
21 annual basis to keep the machinery running smoothly.
22 It is interesting to note though in that 1988 line
23 under capital that there is a major capital expenditure
24 program just underway.

25 MS. BLASTORAH: Q. This is again under

1 paper and allied?

2 MR. DUNCANSON: A. Under paper and
3 allied.

4 Q. And that's the third column from the
5 right on the table for the capital.

6 A. The same comments can be made about
7 the capital expenditures that are planned this year for
8 the wood products industry as well. It is a record
9 year for capital expenditures.

10 MR. MARTEL: The expenditure for paper
11 and repair, is that because some of the plants were
12 old, relatively old?

13 MR. DUNCANSON: I will be getting into
14 more definition of old and modernized later in my
15 presentation. That's partly the case. It is partly
16 new technology that will replace existing pieces of
17 equipment in the plan, but you are right, it is -- the
18 largest portion is to repair worn out parts.

19 Felts on a paper machine need annual --
20 annually need to be replaced. Quite a bit of the
21 equipment in the mill yards, forklifts and some of the
22 heavy equipment, very good capital-intensive equipment
23 I might add, only has a life span of 5, 10, 15 years
24 depending on the piece of equipment.

25 So it is not that the industry is old, it

1 is that they have some very expensive parts in the
2 equipment that do wear down on a short life span.

3 MS. BLASTORAH: Q. Are you finished on
4 that point, Mr. Duncanson?

5 MR. DUNCANSON: A. Yes, I am.

6 Q. If I can ask you then to turn to page
7 202 of the material which is the future capital
8 spending plans section of your report?

9 A. I would like to back up just one
10 step. I did have another presentation. I wanted to
11 identify some of the major capital expenditures--

12 Q. Sorry, I didn't mean to rush you.

13 A. --in that previous slide.

14 Q. Is this the table that's in your
15 material at page 201?

16 A. Yes, it is, this is on page 201.

17 I have taken out the pulp and paper and
18 allied category and I have broken it down into the
19 major capital expenditures, and this is primarily under
20 the capital rather than the repair section, but it will
21 give you an idea of the large capital expenditure
22 programs that have been carried out.

23 This time period is 1982-1987 and I have
24 gone through mill by mill, paper machine by paper
25 machine and identified the major new capital projects.

1 What the bottom line here is that approximately 60 per
2 cent of Ontario's pulp and paper capacity has been
3 modernized since 1982; 83 per cent of the newsprint, 29
4 per cent of the printing and writing paper capacity, 42
5 per cent of the pulp capacity has been modernized since
6 1982.

7 Now, we can get back to chart 202.

8 Q. Sorry, okay.

9 A. Now, we have seen the recent past and
10 we have switched now our focus to the future capital
11 expenditures and these are programs that have been
12 announced, quite a few of them have been announced very
13 recently and a large -- a good portion of this capital
14 expenditure is included in the 1988 Stats Can number.

15 Q. And, again, is this a revised chart?

16 A. Yes, this is a revised chart because
17 since we completed our study there have been two more
18 major capital expenditures announced and those are the
19 two -- would be the James River/Marathon and the Great
20 Lakes/TMP Pulp Mill.

21 Q. Maybe while I am -- if you could just
22 pause for a minute, I will pass out copies of that
23 revised table and maybe I could just ask you, when you
24 are referring to the screen, if you could use the
25 pointer to just indicate to the Board because there are

1 so many numbers it is a little difficult to follow
2 along.

3 THE CHAIRMAN: Exhibit 200.

4 ---EXHIBIT NO. 200: Revised Table of Future Capital
5 Expenditures.

6 MR. DUNCANSON: The two new additions
7 from the table that we had in the report would be the
8 Great Lakes Thunder Bay - that should be a T, by the
9 way, too my slide lifted and the top of the T came off
10 of the slide - that is the TMP pulp mill and the James
11 River/Marathon \$45-million modernization which has been
12 slated for 1989.

13 These are the major future capital
14 expenditures that have been announced to date. You are
15 probably aware of some of the local newspapers, there
16 is tremendous amount of capital expenditure going on
17 right in Thunder Bay with the Great Lakes plan. But
18 basically what this will be do is, a further 20 per
19 cent of Canadian capacity will be modernized over this
20 three-year period.

21 MS. BLASTORAH: Q. And that's in
22 addition to the 60 per cent you have already indicated?

23 MR. DUNCANSON: A. That's correct.

24 Q. And that's Ontario, I understand, not
25 Canada? You just indicated that was Canada.

1 A. It is Ontario, sorry if I said
2 Canada. It was 20 per cent of Ontario pulp and paper
3 capacity that is to be modernized over the next three
4 years.

5 So if you are following along with the 60
6 per cent presented on the previous slide, over the
7 10-year period 82-92, 80 per cent of Ontario's pulp and
8 paper capacity has been modernized.

9 Q. Now, you have been using the term
10 modernized and, again, this is something Mr. Martel has
11 asked about. What do you mean when you use that term?

12 A. Breaking it down into the various
13 categories, again, referring to the pulp and paper
14 industry in particular, modernization of a paper
15 machine primarily means a rebuild of the machine which
16 means putting in the latest technology in paper-making
17 technologies. It also means changing the pulp furnish
18 as we described earlier and replacing existing parts of
19 the mill with modern technology. The mill itself is
20 not rebuilt.

21 There are a lot of parts of the existing
22 pulp and paper mill, the wood room, the space outside
23 the mill where the logs are stored, basically you can't
24 do anything to modernize those, maybe the flow system
25 into the mill.

1 In a pulp mill, particularly a kraft pulp
2 mill, you are dealing with a very large chemical
3 refinery. You have got various components, bleaching,
4 the cooking process, the machines that form the pulp,
5 all of these are separate portions of the mill and
6 don't -- when you rebuild or modernize a mill you may
7 not rebuild the entire mill, you will rebuild one
8 portion or the other.

9 Just to bring out some further details.
10 There are 20 newsprint machines operating in the
11 province of Ontario now; 14 of them are either brand
12 new or rebuilt incorporating the latest in paper-making
13 technology. There have been several major developments
14 in newsprint and in the production of newsprint and
15 also technology changes on the demand side on the
16 printing technology of the major publishers.

17 At this point I would like to get into a
18 little bit of the technology transfer that we have seen
19 in the newsprint industry since it is such a key
20 component and I would like to explain what I mean by
21 some of the machine rebuilds.

22 14 of those 20 newsprint machines, while
23 they have been rebuilt, have incorporated a very new
24 technology - by new I mean within the last 15 years -
25 have put in what is known in the industry as a twin

1 wire or a top wire former, and I have got a slide that
2 will describe that in a little bit more detail.

3 Q. Okay.

4 MS. BLASTORAH: And, again, Mr. Chairman,
5 this is not something that's in the material. It is
6 essentially a diagram of the piece of equipment that
7 Mr. Duncanson is going to be talking about, and I do
8 have copies of that for the parties.

9 THE CHAIRMAN: Exhibit 201.

10 ---EXHIBIT No. 201: Diagram of twin wire equipment.

11 MR. DUNCANSON: I understand that the
12 Board will be touring a number of paper facilities over
13 the next little while. This I think will help you
14 immensely in understanding, with all the noise of the
15 machinery behind you, what you are actually looking at.

16 In the newsprint industry, the 14 of the
17 20 machines that have been rebuilt have primarily
18 incorporated this new forming technology for paper.
19 The pulp enters the paper machine from this side
20 (indicating). Traditional technology --

21 MS. BLASTORAH: Q. Sorry, that's the
22 left of the diagram?

23 MR. DUNCANSON: A. Sorry, the left of
24 the machine. Traditional technology, the pulp -- the
25 water would be removed from the pulp to form the paper

1 sheet by running it along a single screen or it is
2 known in the industry as a wire. This is about thirty
3 feet in length.

4 The paper would then go through -- the
5 process would then go through a series, and about
6 another mile of diagram if I had it, of dryers and
7 presses where the paper is actually formed. The new
8 technology that I am referring to when I refer to as
9 twin wiring is the invention of this machine, it is
10 known as a twin wire former where the pulp is actually
11 pressed between two wires and the water is drawn out,
12 rather than just from the bottom side the water is
13 actually pulled out from the upper side.

14 This is, again, a very detailed
15 technology, but primarily what this new machine does is
16 it allows the paper machine to run at a much higher
17 rate, therefore, a higher capacity utilization of the
18 existing machine but probably more importantly, it
19 improves the surface printing qualities of the
20 newsprint. This is the most sought after grade
21 characteristic of newsprint publishers.

22 The number one characteristic that this
23 new machine -- this technology does is it removes the
24 amount of lint on the surface of the paper, it also
25 increases the strength of the sheet of paper. 83 per

1 cent of Ontario newsprint is now formed in this way.
2 It has to be the single largest producing region of
3 newsprint producing this higher quality of sheet.

4 Q. And I understood from your earlier
5 comment this is not something that requires the
6 complete replacement of a printing paper machine or a
7 paper machine?

8 A. No, it doesn't, but it is a fairly
9 expensive capital expenditure.

10 Q. So am I correct that this is then a
11 piece of equipment that is added on to the existing
12 equipment?

13 A. Yes, it is added on to the existing
14 equipment.

15 Q. I see. Before when you were speaking
16 about repairs and modernizations and new equipment, you
17 sort of made that distinction. Is there an easy line
18 to draw between repairs and modernizations; is that a
19 complete distinction?

20 A. It is not a complete distinction in
21 the fact that the parts of an intricate paper machine
22 such as this that are being repaired are repaired with
23 not existing parts from the box dated 1940, but would
24 be from the latest in technology.

25 In most cases control systems that were

1 digital -- or that were clocks and wheels are now
2 digital and highly computerized. So some of the repair
3 expenditure could actually cross over the definition of
4 capital. It is a fine line, it is a question of
5 definition.

6 Q. I don't know whether you gave us any
7 numbers, but are you able to give us any numbers in
8 relation to newsprint mills?

9 You told us about the number of newsprint
10 machines that have been modernized or rebuilt. How
11 does that relate to the number of mills that have had
12 modernization work done?

13 A. Well, all of the existing mills,
14 there are eight of them in Ontario that have had -- you
15 know, some of the mills are multi-machine mills, but
16 there isn't one company or mill that has not had this
17 technology introduced into it.

18 Q. I see. Are rebuilt facilities of the
19 type you just described, are they as productive and
20 effective as what has been referred to in some of the
21 literature as green field facilities?

22 A. Yes. As I alluded to earlier, the
23 green field mill -- a green field mill by definition is
24 literally that; you take a greenfield, a pasture, a
25 piece of vacant property and you build a mill from

1 scratch, you put in the water systems, the pollution
2 control systems, the road network, you build the
3 buildings, and you put in whether you are going to go
4 with the chemical kraft mill or a newsprint machine or
5 a fine paper machine, you would build those machines.

6 In the case of a rebuilt pulp mill, as I
7 mentioned before, you are dealing with a major chemical
8 refinery and in rebuilding a pulp mill you can build
9 different components at different stages and so,
10 literally, when you rebuild an existing mill you are
11 building a green field mill, but in stages.

12 MR. MARTEL: When you are putting in new
13 environmental controls in a mill as you modernize it,
14 is it more costly to do it that way than it is in a new
15 mill?

16 MR. DUNCANSON: No, it isn't actually in
17 the fact that some of your major expenditures are your
18 road systems into the mill, your power, your chemical,
19 your bleaching systems that are in existence. When --
20 sorry.

21 MR. MARTEL: I am not talking about the
22 mill as a whole, I am talking about those areas where
23 you have to introduce environmental controls, are they
24 more costly to put in an older mill than they are in a
25 newer mill where you are starting from scratch,

1 forgetting the infrastructure?

2 MR. DUNCANSON: No, you are basically
3 dealing with the same pieces of equipment. The overall
4 cost of a green field mill, of course, is significantly
5 more expensive. But you are dealing with components
6 that you plug into the system, whether you plug it into
7 a new mill or you plug it into an existing mill.

8 MS. BLASTORAH: Q. So then for the
9 company involved, would it be more cost efficient to
10 start from scratch and build a new environmentally -- a
11 new mill up to the current environmental standards or
12 would it be more cost efficient to upgrade
13 environmentally an existing mill?

14 MR. DUNCANSON: A. You are dealing with
15 some other major factors here in the fact that your
16 work force would be dislocated. You would primarily
17 want to relocate the mill right on top of the existing
18 foundations because then you have your road system,
19 your wood supply, delivery systems and you have got
20 your labour force, energy sources all there.

21 So it would be very much more expensive
22 to shut down an old mill move 150 miles and rebuild.

23 Q. And have we had some examples of this
24 sort of modernization that you have been talking about?

25 A. One of the -- I guess two or three of

1 the key plants, pulp mills I have been referring to
2 specifically would be the Espanola plant, E.B. Eddy,
3 the Dryden plant of Great Lakes and then the Great
4 Lakes Thunder Bay plant which is virtually a new mill
5 completed in 1976. But the Espanola and Dryden mills,
6 as I indicated on the previous slides, were done in the
7 last five years.

8 Q. What impact has all this
9 modernization that you have told us about had on the
10 industry's competitiveness and what impact will it have
11 in the future?

12 A. I think that it has had basically a
13 very positive impact on the competitiveness of the
14 industry because a lot of this new technology, both in
15 the pulping and the paper making, has lowered the cost
16 of production. It has done that through various ways,
17 the machinery is more efficient, less labour intensive,
18 the wood requirements, they are making more efficient
19 use of the wood, particularly the -- I will get into a
20 little bit more detail with some of those processes.
21 So the lower cost has equalled a higher profit margin.

22 The Ontario industry in doing these
23 capital expenditures, in my opinion, is responding to
24 technological changes and these are technological
25 changes in their end market uses, particularly in

1 reference to the newsprint industry, the Ontario
2 industry, by twin wiring the majority of their machines
3 is responding to their printing and publishing market
4 and demands.

5 The advent of offset and flexographic
6 printing, which are the two key publishing -- offset is
7 the key publishing technology right now for printing
8 newspapers. Flexographic printing is a new invention
9 and there are not that many mills that -- not that many
10 newsprint publishers, I should say, that are using it
11 now, but that is the latest in technology.

12 I do have some samples of these I think
13 it would help to clarify exactly what I mean by offset
14 and flexographic.

15 MS. BLASTORAH: Mr. Chairman?

16 THE CHAIRMAN: Very well.

17 MR. DUNCANSON: Flexographic, and I will
18 let you look at these after I have finished showing the
19 audience here. Flexo -- or offset printing uses a
20 technology in printing the paper that is superior to
21 the standard letter press where they are setting up
22 because it is all automated and you can get much better
23 reproduction at a much faster lower cost to the
24 publisher. About 50 per cent of publishing is in
25 offset press.

1 Probably the best example of offset
2 press, and everybody is impressed with the colour
3 clarity, is U.S.A. Today, that is a perfect example of
4 what is offset press is. The big characteristic of
5 offset publishing is that they need a very strong sheet
6 of paper and they need absolutely no lint on the
7 surface.

8 So Ontario's newsprint producers, 83 per
9 cent of the capacity is coming out in the form that the
10 new wave of publishing can use.

11 MS. BLASTORAH: Q. And when you say new,
12 Mr. Duncanson, is this part of the 15 years that you
13 talked about earlier in terms of the development of
14 these new market technologies?

15 MR. DUNCANSON: A. Yes, yes. This
16 offset process has been around for about 15 years. It
17 is a very expensive process for publishers to convert
18 to, so when they replace printing presses, most of them
19 do go to offset press now.

20 Q. So is this something that is just
21 coming on stream in the publishing world now?

22 A. No, as I mentioned before, about 50
23 per cent of publishers in U.S. and in Canada use this
24 technology.

25 Q. Okay.

1 A. Standard newsprint cannot be used in
2 this technology, this would be single wire formation.

3 The new technology that will take over
4 the publishing over the next, probably 10 to 15 years
5 is the other name I referred to, is flexographic
6 printing. This is a very expensive conversion, but
7 there are a number of publishers that have switched to
8 this in the United states.

9 It uses, rather than that an oil-based
10 ink they use a water-based ink. This has gained
11 tremendous applause, you know, from the
12 environmentalists because of the less polluting factors
13 of the inks, but publishers like it particularly
14 because their advertising customers like it because the
15 colour that comes out on it - and I have two examples
16 here, some comics which is printed on twin wire
17 newsprint and a copy of the Providence Bulletin which
18 is published in Rhode Island.

19 These are water-based inks, they don't
20 come off on your hands, the colour reproduction and the
21 clarity is superb, as you will see when you compare it
22 even to the U.S.A. Today. So Ontario's newsprint
23 producers have positioned themselves in such a way that
24 they will be able to supply and will not be moved out
25 of competition. The U.S. southern mills are -- do not

1 have the same degree of quality paper and this is a
2 very important factor.

3 Q. Would you like to just pass those
4 samples to the Board maybe, and I think we will make
5 those available at the end of the day if anybody else
6 wants to take a look at them rather than taking time to
7 do that now.

8 THE CHAIRMAN: Anyone looking at the
9 transcripts will probably think that we do nothing up
10 here but read the newspaper.

11 MS. BLASTORAH: Just the comics.

12 THE CHAIRMAN: Or the comics. What do
13 you want to do with these in terms of exhibits?

14 MS. BLASTORAH: I don't think it is
15 necessary to mark them as exhibits, they are really
16 meant --

17 MR. DUNCANSON: They are published daily.

18 MS. BLASTORAH: We can mark them, if you
19 like. Perhaps that wouldn't be a bad idea, just so
20 that people will know exactly what we were talking
21 about.

22 THE CHAIRMAN: Okay. Why don't we mark
23 them as the same exhibit number. Exhibit 202A will be
24 the U.S.A. Today, August 24th, newspaper. And the
25 second one will be exhibit 202B, which is the comics

1 from the Courier Post dated November 7th, 1987, and
2 202C will be the Evening Bulletin which is dated August
3 11th, 1988.

4 ---EXHIBIT NO. 202A: Copy of U.S.A. Today, dated
5 August 24, 1988.

6 ---EXHIBIT NO. 202B: Comics section from Courier Post
7 dated November 7 1987.

8 ---EXHIBIT NO. 202C: Copy of Evening Bulletin dated
9 August 11, 1988.

10 MS. BLASTORAH: We are endeavouring to
11 keep up with Mr. Castrilli. If he is going to put in
12 phone books, I can certainly put in comics.

13 MR. FREIDIN: Mr. Chairman, I am very
14 hopeful that the end of this particular environmental
15 assessment hearing is not reported on -- in every
16 newspaper in the country on flexographic.

17 THE CHAIRMAN: Well, you realize by my
18 numbering them in this fashion we are not getting to a
19 thousand as quickly as we otherwise would.

20 MS. BLASTORAH: Yes, Mr. Campbell thought
21 they should be marked separately.

22 MR. CAMPBELL: I was going to complain
23 about that. I am anxious that that number be received
24 when either the Ministry, or perhaps even better, the
25 industry hits the thousand mark as opposed to Mr.
Castrilli's client having to throw the party.

1 MR. CASTRILLI: It will be a very small
2 party if we have to throw it.

3 MR. MARTEL: Has the technology been
4 developed to use the types of woods from the southern
5 U.S. to produce this type of paper?

6 MR. DUNCANSON: No, the southern pine
7 which is primarily the -- is the prime species in the
8 south -- southern U.S. To get the brightness
9 required -- desired by the industry has to put a fair
10 component of kraft pulp, of bleached pulp in. The wood
11 fiber itself for the southern pine - this is going back
12 to my days as a forester - is not as good, it is a
13 shorter fiber, you don't get the same strength, you
14 don't get the same printability characteristics. This
15 is one advantage that we have with our spruce. It is a
16 much superior fiber to be printing on.

17 MS. BLASTORAH: Q. I understand that is
18 sort of a general comment about the Canadian wood
19 resource -- the wood fiber resource, if I could put it
20 that, that it is superior quality, is that correct--

21 MR. DUNCANSON: A. Yes.

22 Q. --overall?

23 A. Yes, the fiber quality is superior in
24 northern softwood species, primarily spruce and pine.

25 Q. Is that something that could be

1 counted as another advantage for Ontario producers?

2 A. Most definitely.

3 Q. Moving on then, Mr. Duncanson, in
4 your opinion, to wrap up the section on
5 competitiveness, how can the future competitiveness of
6 the Ontario forest products industry be enhanced?

7 A. In our study we have come across two
8 technologies that have been introduced to the Ontario
9 industry and have been recognized by the Ontario
10 industry as further enhancing their competitiveness in
11 the future.

12 I have spent a lot of time talking about
13 the actual paper technology. The greatest future
14 technology changes we believe will come in two forms:
15 In the production of groundwood papers, primarily
16 newsprint, the conversion of the groundwood pulping
17 process that I explained to you earlier is being
18 replaced by higher technology known as thermal
19 mechanical pulping. The industry refers to it as TMP.
20 I have alluded to it on my capital expenditure slides
21 as one of the items that several mills are endeavoring
22 to convert to.

23 Basically the TMP pulping process,
24 thermal mechanical pulping, has some very superior
25 qualities and cost savings; namely, in the thermal

1 mechanical pulping process you are using the natural
2 properties of wood in the fact that the natural glue
3 that holds wood fiber together in a piece of wood is
4 plastic and by applying heat, the thermal portion of
5 the process, you are not breaking down that plastic as
6 you are with groundwood and grinding, but you are
7 actual dissolving it through heat.

8 The main result of this is you get a much
9 higher yield and a much higher percentage of long
10 unbroken wood fibers. We are in the microscope at this
11 point -- under the microscope.

12 The other major advantage, apart from the
13 higher yield, of course, is the fact that you get more
14 fiber per tonne of wood going in at the front end of
15 the mill. The big, big advantage is that you are not
16 flushing out as many fine, small or broken fibers into
17 your pollution system so, therefore, TMP thermal
18 mechanical pulping, is considerably less polluting.

19 Q. And does this impact on the quality
20 of the finished product as well?

21 A. Yes, because you have a higher
22 percentage of unbroken, longer fibers you are making a
23 stronger sheet and, again, in combination with twin
24 wiring paper process you make an extremely smooth
25 sheet. The one drawback for thermal mechanical pulping

1 though is that it involves a lot more energy input.

2 Q. And why do you say that is a
3 drawback?

4 A. It is expensive. The other major
5 technology and something that Ontario producers have
6 been following for a number of years is again in the
7 pulping system, but this involves pulping technology,
8 chemical pulping technology that has allowed a greater
9 utilization of hardwoods.

10 To make chemical kraft pulp it was
11 thought that you could only use softwood. The
12 technology was developed 20 years ago, but never really
13 fully put into commercial use. But today, a number of
14 the large kraft pulp mills in Ontario, particularly the
15 one out here in Thunder Bay at Great Lakes, can use
16 hardwood and, in fact, do. The Thunder Bay mill
17 produces about 100,000 tonnes a year of hardwood kraft.

18 The use of hardwood kraft is extremely
19 attractive to paper producers because you do get some
20 characteristics that you don't normally get with
21 softwood. The hardwood krafts basically have a shorter
22 fiber but they have very important characteristics in
23 the fact that they are bulkier and more denser and they
24 lead to excellent application in absorbant products,
25 noteably diapers.

1 Q. Another virgining field.

2 A. The big attractiveness of course to
3 the Ontario pulping industry in utilizing hardwood is
4 the abundance of hardwood that has no other major
5 commercial end use and, therefore, has an extremely low
6 wood cost component.

7 Both of these pulping technologies are
8 being developed by the Ontario industry, both of them
9 will actually increase value added. The higher paper
10 qualities may not sell at a premium, but they will
11 ensure competitiveness in the market and maintaining
12 the relative market share and pulp -- using hardwoods
13 in kraft pulp, the higher value added, of course, is
14 profit.

15 Q. And if the costs of the end product
16 are not going up, Mr. Duncanson, how do you achieve
17 higher value added out of that equation?

18 Perhaps I am not making myself clear. As
19 I understood the definition that Ms. Coke gave earlier,
20 value added is the difference between the cost of the
21 inputs going into your manufacture and the return you
22 ultimately receive on your product. And I believe you
23 just indicated that the market price of some of these
24 commodities is not going to go up, so -- and you also
25 indicated there was a value added -- higher value added

1 component.

2 A. Your production costs are going down,
3 so you are increasing your level of profitability. You
4 are making yourself more competitiveness -- you are
5 enhancing your competitiveness not only because you are
6 improving the quality in meeting the demands on the
7 quality side, but you also are lowering your wood
8 costs. So from that point of view, there is definite
9 value added.

10 Q. Thank you. Does the addition of the
11 new capacity, which you have indicated it may be coming
12 on in other jurisdictions, have an impact on the
13 Ontario industry?

14 A. Yes, it does and I would like to
15 refer to the table on 196.

16 Q. And this table is not revised; is
17 that correct?

18 A. That's correct.

19 Q. So this is exactly the same as what
20 is in the text.

21 A. The new capacity that has been
22 announced recently in the -- over the past two years
23 has been -- you know, has been well documented in the
24 newspapers. I think it has actually confused most
25 readers because you are talking about 200,000 tonnes

1 here, 200,000 tonnes there and, in context, it seems
2 like an awful lot of new capacity coming on.

3 What I have done on this slide is broken
4 down the main, again, it is mostly capacity additions
5 in pulp and paper grades, but what I have done here is
6 I have identified the key projects that will be coming
7 on stream, the major capacity additions in North
8 America and what grades they are in.

9 The bottom line is that that total
10 capacity is equal to - and it is not on here,
11 unfortunately it did not make it on this overhead but
12 it is on the table in the book - that represents 5.8
13 per cent of current North American capacity in those
14 various grades and products of pulp and paper.

15 MS. BLASTORAH: I believe that is
16 actually indicated in the text below the table on page
17 196, Mr. Chairman.

18 THE CHAIRMAN: Thank you.

19 MR. DUNCANSON: The major increase in
20 capacity, as you can see from the slide, however, is
21 newsprint. This table illustrates where the new
22 capacity additions are coming on. Primarily they are
23 coming on in markets that are outside of the Ontario
24 market.

25 However, when these machines do start up,

1 they will have an impact in the fact that they will
2 dislodge capacity in those other markets and, in turn,
3 those producers may turn their sites closer to the
4 northeast and northcentral portions of the United
5 states, primarily from the U.S. south. However, the
6 major capacity additions are on the west coast.

7 A lot of that newsprint capacity is being
8 built however for off-shore markets, but in times of
9 slower demand, where as Dr. Andersen illustrated where
10 you had no net increase in consumption, for instance in
11 a recession, that would have the effect of reducing the
12 overall North American industry's operating rates.
13 That is how this new capacity will affect Ontario
14 mills.

15 MS. BLASTORAH: Q. And will that be a
16 long-term or a short-term effect.

17 MR. DUNCANSON: A. That will be a
18 short-term effect because, as we have identified in
19 newsprint in particular, we are looking for a 30 per
20 cent increase in demand by the year 2000.

21 We are starting to reach the limitations
22 of capacity additions in North America. Those three
23 new big mills that are going in the U.S. southeast will
24 probably utilize the remaining available wood fiber in
25 that area. There may be room for another two mills and

1 perhaps you may see some mills switch from different
2 grades of paper, but as far as the wood resource is
3 concerned, it is becoming more and more finite.
4 So I am not anticipating a major wave of new capacity
5 additions in the mid-1990s, restricted primarily by
6 fiber.

7 In the market pulp category there is very
8 positive news for the market pulp producers in Ontario.
9 Market pulp is pulp that is sold to a non-integrated
10 pulp and paper mill. We have a number of pulp mills --
11 market pulp mills in Ontario.

12 Q. When you say non-integrated, what do
13 you mean by that?

14 A. They are producing pulp that is
15 bailed in the form of pulp and shipped to a paper
16 manufacturer, primarily in the United States that is
17 located, you know, in an urban centre and does not
18 produce pulp, does not have the wood resource at hand
19 to make the pulp and the paper at the same spot.

20 Q. Thank you.

21 A. A tissue manufacturer would be a
22 perfect example of that.

23 As you can see in the market pulp, there
24 is absolutely no new net capacity coming on. Those
25 mills that are in brackets are actually being converted

1 into higher grades of paper. Dryden in particular,
2 they will be putting in a new paper machine as
3 identified on one of those sheets. That will take
4 market pulp away from the market.

5 So pulp -- in the capacity addition, pulp
6 looks extremely promising over the next year and
7 operating rates from the pulp industry itself should
8 remain relatively high. They are at a 100 per cent of
9 capacity now, they will remain that way, probably even
10 through one other recession.

11 The other major grades, as you can see,
12 Ontario has a good share of the new development in
13 these higher grade, higher value added end products.
14 With the -- in particular with Dryden with that new
15 paper machine and the groundwood printing machine that
16 will be starting up later this year in Sault Ste.
17 Marie.

18 MS. BLASTORAH: Mr. Chairman, we are
19 about to start into a new area of Mr. Duncanson's
20 evidence and I see it is quarter to two. I think it
21 will take us more than half an hour to do the next
22 section, so I was wondering if you would like to break
23 here, it is sort of a logical stopping point because it
24 looks like we have to stop in any event.

25 THE CHAIRMAN: Well, is anybody leaving

1 prior to 4:45?

2 MR. CASTRILLI: I am leaving at 4:15.

3 THE CHAIRMAN: If we went --

4 MR. DUNCANSON: So am I.

5 THE CHAIRMAN: If we went until 2:30 at
6 the outside would that prove to be a problem for
7 anybody.

8 MR. CASTRILLI: I wouldn't think so.

9 THE CHAIRMAN: It doesn't take long to
10 get to the airport really.

11 MS. BLASTORAH: Okay. I think we could
12 finish in that length of time, Mr. Chairman.

13 THE CHAIRMAN: All right. Why don't we
14 try and finish it.

15 MS. BLASTORAH: Okay.

16 Q. Okay, Mr. Duncanson, moving on then
17 to the next section of your report. What factors
18 affect investment decisions within the Ontario forest
19 products industry?

20 MR. DUNCANSON: A. Well, the prime
21 factors that Dr. Andersen and I have identified are the
22 market demand and the competitiveness of the industry.

23 Q. And those are the items we have just
24 been talking about?

25 A. That's correct.

1 Q. And Dr. Andersen talked about this
2 morning.

3 A. That's correct.

4 Q. Apart from market demand and
5 competitiveness, are there other factors affecting the
6 investment decision?

7 A. Yes, there are several financial
8 considerations that affect -- these are factors that
9 affect the investment decision. Noteably the financial
10 position -- the financial strength of the company and
11 the cashflow projections of the company or the
12 industry.

13 In addition to the financial
14 considerations, there are also various government
15 factors; these are government factors affecting wood
16 supply, energy pricing, and government regulations.

17 Q. Let's start with what you have just
18 termed government regulations, Mr. Duncanson. At page
19 207 of the witness statement you have indicated that
20 labour and environmental regulations are not a major
21 cost factor for the Ontario forest products industry?

22 What did you mean by that statement?

23 A. I should clarify the statement on
24 page 207 of the witness statement by saying we meant
25 that labour regulation and environmental regulation at

1 the mill level are not major cost factors.

2 With regard to the labour regulations at
3 the mill level, we are referring primarily to the
4 social and welfare benefit/cost component which in the
5 Woodbridge -- or in the Price Waterhouse survey on
6 newsprint represented those social and welfare
7 benefit/costs, represented approximately 3 per cent of
8 the total mill operating costs.

9 Q. And when you say social and welfare
10 benefit/costs, what sort of thing are you referring to?

11 A. These would be unemployment insurance
12 and pension contributions.

13 Q. I see. And when you speak of
14 environmental regulations, what did you mean?

15 A. Environmental regulations at the mill
16 level. I don't include those as on-going operating
17 costs, those are -- some of them can be fairly
18 expensive, but they are primarily one-time capital
19 costs. They do not affect -- they do not have a
20 negative effect, I guess, on on-going operating costs.
21 Some of the environmental capital expenditures actually
22 do help to reduce some of the operating cost.

23 Q. And what are the impacts of these
24 labour regulations and environmental regulations at the
25 mill level on investment decisions in the industry?

1 A. In our study and in our research for
2 this report, particularly with the interviews that we
3 had with a number of the major firms in the industry,
4 the common response from the industry was the fact that
5 these environmental and labour regulations have a
6 history of changing.

7 Now, this results in uncertainty,
8 uncertainty when you are making long-term plans, and it
9 is this uncertainty that can have a negative impact on
10 the investment decision.

11 Q. Okay. Going back then to the other
12 factors you indicated would affect the investment
13 decision such as the financial position of the
14 industry, how do you quantify the financial position of
15 a company?

16 A. In my line of work as a financial
17 analyst, when I quantify the financial position of a
18 company I look at the balance sheet, I look at the
19 income statement which can lead to my cashflow
20 analysis. Both of these points, the financial
21 strength, the balance sheet and the earning statement
22 are very key because they dictate the company's ability
23 to spend money on capital equipment.

24 Q. What do you mean by the term cashflow
25 that you just used?

1 A. Okay. I guess I should give you a
2 definition. Cashflow is a company's net earnings, net
3 profits plus the items in the earnings statement that
4 require no physical cash outlay such as depreciation,
5 deferred income taxes.

6 The cashflow is important in an analysis
7 of the financial strength of a company or an industry
8 in the broader sense, because it provides -- cashflow
9 provides a broad picture of the company's earning
10 power.

11 Q. And is that over time or what kind of
12 picture does that give you?

13 A. It gives you a snapshot of the
14 company's present financial strength, but in cashflow
15 analysis you project out several years on the earning
16 power and there are all sorts of assumptions and
17 forecasts that are built into that: Operating rates,
18 commodity prices, operating costs, how fast they are
19 being able to modernize and such. That is why cashflow
20 projections really do give you a better indication of
21 the company's ability to finance expansion.

22 Q. And, in your opinion, what is the
23 current financial position of the forest products
24 industry and what is its outlook for the future?

25 A. The Ontario forest products industry

1 on the whole, this would include all facets of it, is
2 in its best financial shape in many, many years. I
3 have got a graph actually that was on page 203 that I
4 would like to present.

5 MS. BLASTORAH: I think it may be 204,
6 Mr. Chairman, 203 is two charts.

7 MR. DUNCANSON: No, I am sorry, it is
8 203.

9 MS. BLASTORAH: So it is the chart then?

10 MR. DUNCANSON: Yes. Again, there are no
11 changes to this chart. This is how I measure the
12 financial strength of the company looking at its
13 balance sheet.

14 I have used Great Lakes Forest Products
15 as an example in here because all of its operations are
16 in the forest products business; pulp, newsprint,
17 lumber, and all of its operations are Ontario. It is
18 now known as -- it is a division of Canadian Pacific
19 Forest Products today.

20 As you can see, its long-term debt
21 divided by debt plus equity has dropped to 23.6 per
22 cent from an average that was closer to 40 per cent
23 over the last several years. This means two things:
24 Their amount of debt that they have to finance is
25 considerably lower, it is 127-million versus, you know,

1 a high of 217-million in 1985.

2 If we are indeed reading the papers
3 yesterday going back to slightly higher interest rates,
4 this is a key component because less of the company's
5 earnings will have to go to paying the bank. At the
6 same time, the equity - this is earnings that have been
7 retained on the balance sheet - has increased and the
8 company now has a shareholders' equity of \$410-million
9 as opposed to three -- low 300s just as recently as
10 last year. That is an extremely low debt to equity
11 level. The industry, by and large in general, strives
12 for about a 35 per cent rate debt to equity. This
13 means that Great Lakes has a tremendous borrowing
14 capability.

15 Just turning to the cashflow and my
16 projections on cashflow that we included in our study,
17 to give you an idea of how the industry has improved
18 over the recent few years. Again, this is the industry
19 in general. The cashflow was estimated by the Ontario
20 forest products industry in 1985 to be a total of
21 235-million.

22 We calculated and estimated that total
23 cashflow in 1987 reached 1.5 -- 1.15-billion and we
24 were forecasting 1988 to improve to even further higher
25 levels of 1.48-billion. These are all Canadian of

1 course. That level of cashflow is extremely high. It
2 gives the companies the ability to spend and is one of
3 the main reasons why the capital expenditures have
4 increased.

5 However, we do feel that the 1988
6 estimated 1.48-billion will be peak cashflows in this
7 current economic cycle and 1989 we could -- we expect
8 to see cashflows approximate what we saw last year, a
9 little bit over \$1-billion.

10 Q. And do you see the level of
11 profitability that you have been discussing continuing
12 in the future for the industry?

13 A. This is where I would like to refer
14 to chart 204 now.

15 Q. Okay.

16 MS. BLASTORAH: That is page 204, Mr.
17 Chairman.

18 MR. DUNCANSON: This chart on page 204
19 gives you a good example of the cyclical nature of
20 profits in the forest products industry. The dot and
21 dash line is that of Great Lakes, the solid line is
22 that of Abitibi and Domtar is just the slash line. I
23 picked these three companies because they are publicly
24 owned companies and the information concerning their
25 earnings is public information and very well

1 documented.

2 As you can see they all dipped in the
3 recession and we have plotted their net earnings in
4 1987 at the far end. In answer to the question: Do we
5 see this level of profitability continuing? We see the
6 level of profitability in 1988, which we have indicated
7 on the small dots at the end of each of those lines as,
8 you know, reaching the \$1.48-billion for the entire
9 industry. And, as I mentioned before, I see that as
10 peak earnings in the current cycle and I would expect
11 the profitability of the industry to drop throughout
12 '89 and '90, '91.

13 However, I don't think it is going to
14 drop back to the level of profitability in -- as we saw
15 in the 83-84 period primarily because of the factors
16 that we have mentioned. We are seeing stronger demand
17 for the products, there will be overcapacity in certain
18 items that will have a short-term effect, negative
19 effect on some products such as newsprint.

20 However, we see relatively high operating
21 rates and we see relatively high commodity prices.
22 That, coupled with the basically lower operating costs
23 of the industry, will probably mean that the
24 profitability line going into the 1990's will remain at
25 a fairly stable level.

1 MS. BLASTORAH: Q. And is the
2 cyclicalality that you have indicated in this graph, is
3 that tied to economic cycles generally?

4 MR. DUNCANSON: A. Yes, it is tied very
5 much so to economic cycles.

6 Q. Does this cyclicalality or this
7 forecast that you have made apply equally across all
8 sectors of the industry?

9 A. No, it doesn't, and this is where I
10 would like to clarify. The profitability and the
11 cashflow numbers that I have mentioned in my outlook
12 for profitability refer to the industry in general.

13 As we identified this morning through Dr.
14 Andersen, the demand forecast for solid wood products,
15 wood products, lumber and panel products, because of
16 the maturing of the housing market in the prime markets
17 in Canada and the United States, we don't see -- the
18 profitability of that industry right now is actually
19 reflecting that fundamental weakness in housing.

20 The wood industry in Ontario basically is
21 at best case break even. You do have some examples
22 where they may be profitable but the profits are fairly
23 small. So most of the -- almost all of the very
24 positive cashflow numbers that I have been indicating
25 come from the paper -- the pulp and paper, the paper

1 and allied industries.

2 Q. And you indicated just a moment ago
3 that this cyclical nature of the industry is related to
4 the economic health of the economy overall or the
5 health of the economy overall.

6 A. Yes.

7 Q. Does the fact that the cyclical
8 nature varies from sector to sector, does that have any
9 special impact on any particular sector with regard to
10 downturns or upturns in the economy generally?

11 A. As I mentioned, probably the greatest
12 swings in demand cyclicity are those in the wood
13 products, the wood industries largely because the
14 interest rates and the interest rate impact on housing
15 and expenditures on housing.

16 As we have illustrated this morning, Dr.
17 Andersen, the demand, the consumption of most paper
18 products; newsprint, printing and writing paper grades
19 in particular, doesn't drop in a recession, it
20 basically remains flat, it is less cyclical.

21 Q. And you have indicated that your
22 forecast is not as positive for the solid wood
23 products. How does that affect their ability, for
24 instance, to withstand downturns in the economy?

25 A. They are in a very fragile state.

1 Q. And what do you mean?

2 A. They don't have a lot of cushion to
3 withstand downturns in the economy.

4 Q. And just for the sake of clarity,
5 what do you mean when you speak of cushion?

6 A. If I was to show some of the balance
7 sheets of the lumber producers, there are very few
8 publicly owned lumber producers, in fact there are none
9 that I could get an example of in Ontario, you would
10 see that their balance sheets, their debt is fairly
11 high to their equity and that their earnings are very
12 minimal. So they are in a very fragile financial
13 shape.

14 Q. Okay. Finally, Mr. Duncanson, in
15 your opinion, does the cyclical nature of the forest
16 products industry impose any special requirements?

17 A. Yes, it does. In planning some of
18 these massive capital investments, a new plant
19 equipment, the companies are looking out longer term,
20 they are looking at putting in these pieces of
21 equipment generally with a long-term viewpoint and, by
22 long-term, I mean 20 years plus.

23 Even though, you know, for example the
24 newsprint industry is going to have all of its capacity
25 basically in the shape that will meet the expected new

1 demand and printing technology, they are a little ahead
2 of the game but they are looking down the road and that
3 is, you know, 20 years plus.

4 Therefore, since they are looking at end
5 markets a long ways down the road, they require a
6 long-term security of fiber supply, long-term security
7 of fibre supply at competitive prices. At the same
8 time, they need a supply of fiber that doesn't restrict
9 flexibility of the industry. They must be able to
10 respond quickly to changing technology and demands in
11 the marketplace, therefore, they need the wood supply
12 that does reflect this flexibility.

13 MS. BLASTORAH: Mr. Chairman, that is our
14 evidence-in-chief in this panel.

15 THE CHAIRMAN: Very good.

16 MS. BLASTORAH: We finished ahead of
17 schedule for once.

18 THE CHAIRMAN: Thank you very much.
19 Thank you, witnesses.

20 Well, ladies and gentlemen, we will
21 commence with the cross-examinations on Monday and I
22 suppose we will lead off with you, Mr. Cosman, and then
23 proceed with Mr. Castrilli and any of the other counsel
24 that might show up for it, and then end with Mr.
25 Campbell, hopefully some time late Tuesday.

1 We are gearing ourselves, if we might,
2 towards not necessarily having to sit for the purpose
3 of evidence on Wednesday unless it becomes necessary
4 and, in that sense, we might sit a little longer on
5 Monday and a little longer on Tuesday.

6 The Board may be taking a site visit with
7 respect to one of the mills on Wednesday morning, and
8 then Thursday we will devote the whole of that day
9 towards the hearing of the three motions that are
10 before us.

11 In the event that we do not get to the
12 third motion, which is with respect I believe to the
13 fall site visit, Mr. Freidin, we will put that off to
14 another time, if necessary. I would rather that we do
15 complete the argument with respect to the first two
16 motions which will have a more significant impact on
17 the conduct of the hearing than the third one will.

18 MS. BLASTORAH: Thank you, Mr. Chairman.

19 THE CHAIRMAN: Thank you. We will
20 adjourn now until one o'clock on Monday.

21 Thank you.

22 ---Whereupon the hearing adjourned at 2:05 p.m., to be
23 reconvened on Monday, August 29th, 1988, commencing
24 at 1:00 p.m.

25 (Copyright, 1985)

